

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)

POSTAL RATE AND FEE CHANGES)

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

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C O N T E N T S

WITNESSES APPEARING:

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ALTAF H. TAUFIQUE

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
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P R O C E E D I N G S

(9:32 a.m.)

CHAIRMAN OMAS: Good morning and welcome.

Today is the final day of hearings to receive testimony in rebuttal to participants' direct testimony in Docket R2006-1.

Today we will hear testimony from two witnesses, Witness Laws and Taufique.

Before we begin, does anyone have a procedural matter they'd like to discuss at this point before we begin?

(No response.)

CHAIRMAN OMAS: There being none, Ms. Portonovo, would you like to begin, please?

MS. PORTONOVO: Thank you, Mr. Chairman. The Postal Service calls George R. Laws to the stand.

CHAIRMAN OMAS: Would you stand please, Mr. Laws?

Whereupon,

GEORGE R. LAWS

having been duly sworn, was called as a witness and was examined and testified as follows:

CHAIRMAN OMAS: Please be seated.

Ms. Portonovo?

//

1 (The document referred to was
2 marked for identification as
3 Exhibit No. USPS-RT-16.)

4 DIRECT EXAMINATION

5 BY MS. PORTONOVO:

6 Q Mr. Laws, in front of you you have two
7 copies of a document entitled Rebuttal Testimony of
8 George R. Laws on Behalf of United States Postal
9 Service marked as USPS-RT-16.

10 Were the contents of these documents
11 prepared by you or under your direction?

12 A Yes, they were.

13 Q And if they were given as oral testimony
14 today would the contents be the same?

15 A Yes, it would.

16 MS. PORTONOVO: With that, Mr. Chairman, the
17 Postal Service requests that these documents be moved
18 into evidence.

19 CHAIRMAN OMAS: Is there any objection?

20 (No response.)

21 CHAIRMAN OMAS: Hearing none, I will direct
22 counsel to provide the reporter with two copies of the
23 corrected testimony of George R. Laws.

24 That testimony is received into evidence and
25 is to be transcribed into the record.

1 (The document referred to,
2 previously identified as
3 Exhibit No. USPS-T-16, was
4 received in evidence.)

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USPS-RT-16

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC, 20268-0001**

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

**REBUTTAL TESTIMONY
OF
GEORGE R. LAWS
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE**

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1 AUTOBIOGRAPHICAL SUMMARY

2
3 My name is George Laws. I am the Manager of Letter Mail Technology for U.S. Postal
4 Service Engineering in Merrifield, Virginia. I received a Bachelor of Science Electrical
5 Engineering degree with Distinction in 1972 and a Masters Electrical Engineering in
6 1974, both from the University of Virginia. I received a Masters of Business
7 Administration in 1987 from George Mason University. I joined the U.S. Postal Service
8 Engineering as a Principal Program Engineer in 1989, and was the lead electronics
9 engineer on the Advanced Facer Canceller System (AFCS) program. After the AFCS
10 program, I was either the program manager or lead engineer on numerous letter
11 automation improvement and letter recognition programs. I have served in my current
12 capacity since 2000.

1 PURPOSE AND SCOPE OF TESTIMONY

2
3 The purpose of my testimony is to rebut the proposal of Greeting Card Association
4 witness Morrissey (GCA-T-3) to change the current aspect ratio machinability
5 requirements for letters and cards. In doing so, I will explain why the results of the
6 experiment described in the testimony of witness Morrissey are unreliable and should
7 not be used to support any reconsideration of current requirements. I also will describe
8 the methodology and results of an engineering study performed by Postal Service at the
9 request of GCA to determine the compatibility of square cards with current automated
10 mail processing equipment. I will show that these test results support retention of the
11 current aspect ratio machinability requirements. Finally, my testimony will explain why
12 an increase in the maximum allowable weight of an automation mail piece from 3.5
13 ounces to 4.0 ounces, as proposed by POSTCOM witness Otuteye (POSTCOM-T-8) is
14 not operationally realistic.

1 I. THE CHALLENGE PRESENTED BY SQUARE LETTERS AND CARDS

2
3 Greeting Card Association witness Morrissey's testimony (GCA-T-3) raises an
4 issue that, I am told, is not routinely the subject of review in these proceedings.
5 Accordingly, before I explain why the Commission should not rely on his experiment to
6 change current aspect ratio machinability requirements, it seems worthwhile to explain,
7 from an engineering standpoint, why those requirements are in place.

8 When First-Class Mail arrives at the Processing and Distribution Center from
9 various collection points, it is potentially a mix of single-piece letters and cards, single
10 piece flat mail, or small parcels. This collection of different types of mail is separated
11 into individual flows by a Dual Pass Rough Cull System (DPRCS). The single piece
12 letters and cards from the DPRCS are distributed by a Loose Mail Distribution System
13 to an Advanced Facer Canceller System (AFCS). A Processing and Distribution Center
14 may have a number of AFCS machines, depending on the volume of letters and cards
15 processed each night by that Processing and Distribution Center. The AFCS is used to
16 orient the single piece letters and cards, to cancel the stamp on the letters and cards, to
17 lift an image of the front of the mail piece so that the destination of the mail piece can be
18 determined, and to sort it into one of six accept sort pockets based on its next
19 processing step.¹

20 The AFCS uses several steps to orient letters and cards. First, an Edging
21 Channel orients the mail pieces in one of four orientations. Mail pieces enter the Edging
22 Channel randomly in one of eight possible orientations, any of the four edges down with

¹ Or into a seventh reject sort pocket if the mail can not be faced.

1 the address side facing out or any of the four edges down with the back, non-address,
2 side facing out. The Edging Channel uses eccentric rollers and knock-down barriers to
3 align mail pieces on their longer, more stable, edge. The four orientations are reduced
4 to two orientations by a Twisting Module. Mail pieces are turned 180 degrees along
5 their horizontal axis if no indicia is detected by a first set of Indicia Detectors.² After the
6 mail pieces have passed through the Twisting Module, a second set of Indicia Detectors
7 examines the indicia zone of the mail pieces to confirm (a) that all the mail is in one of
8 two orientations, stamp down-leading or stamp down-trailing and (b) that it has valid
9 indicia. Each sort category on the AFCS has two sort pockets to accommodate the two
10 possible orientations, "lead" and "trail," in each sort category. The final step in orienting
11 mail pieces is when the operator moves the mail pieces from the sort pockets to a letter
12 tray. The operator turns the "trail" mail 180 degrees around a vertical axis so that it is
13 oriented the same as the "lead" mail.

14 The mechanisms used by the AFCS works very well for rectangular mail pieces
15 with an aspect ratio (length divided by height) between 1.3 and 2.5. However, the
16 AFCS cannot always correctly orient pieces with a low aspect ratio, such as a square
17 piece, for two reasons. First, low aspect ratio pieces may not be in one of the four
18 anticipated orientations when they leave the Edging Channel, because all four edges
19 are equally stable, as opposed to rectangular mail pieces that are more stable on their
20 long edges. Secondly, mail pieces with a low aspect ratio can potentially tumble when
21 they are not being tightly held by a belt on either side of the mail piece, when they are

² The Indicia Detectors look for indicia in a 1.5 inch high by 2.5 inch wide zone on bottom leading corner on one side of the mail piece and the bottom trailing corner on the other side of the mail piece.

1 not in pinch. The AFCS has three Leveler Sections, one after the Feeder and one after
2 each of two Twisting Modules, where the mail pieces are not in pinch, which allows the
3 *mail pieces to settle and adjust for variations in the height of mail pieces.* Low aspect
4 ratio mail pieces can potentially tumble while they are moving through the Leveler
5 Sections.

6 Even if low aspect ratio pieces (square cards) complete their processing on
7 Postal Service automation equipment, such pieces often require more handlings than
8 rectangular cards to be processed on Postal Service automation equipment. Since the
9 orientation of a mail piece, as it arrives at the Edging Channel of the AFCS, is random
10 and each of the eight possible orientations is equally likely, the AFCS will not be able to
11 orient half of the square cards, on average. The ones that it cannot orient will be sorted
12 to the reject pocket. Periodically, while single-piece First-Class Mail is being faced and
13 cancelled, the mail that is sorted to the reject pocket is reprocessed on the AFCS with
14 the operating mode of the machine set to Video Facing. However, even in Video Facing
15 mode, the AFCS still is not be able to orient the square cards that initially sorted to the
16 reject pocket, since they are not in one of the four anticipated orientations. Even if the
17 AFCS can determine that a mail piece is in one of the four unanticipated orientations, it
18 *does not have a mechanism to change a mail piece from one of the four unanticipated*
19 *orientations to one of the four anticipated orientations.* Thus, the square cards will
20 again be sorted to the reject pocket. Depending on the volume that is sorted to the
21 reject pocket during Video Facing mode and the time remaining until the facing and
22 canceling operational is to be completed, the AFCS operator will either manually face
23 the mail that sorted to the reject pocket during Video Facing mode and process it along

1 with mail that was sorted to the accept pockets, or send it to the Manual Processing
2 Section.

3
4 II. THE GCA SQUARE LETTER EXPERIMENT IS FLAWED AND UNRELIABLE

5
6 In an effort to support a change in the existing DMCS requirements for
7 machinable letters and cards, Greeting Card Association (GCA) witness Morrissey
8 conducted an experiment which purports to determine the degree to which such cards
9 are successfully processed on Postal Service automated cancellation and sorting
10 equipment. GCA-T-3 at 1-6. As I will explain below, the results of this experiment
11 should not be relied upon to justify changing current machinability requirements.

12 The GCA experiment involved eight participants, located in different geographic
13 regions, each mailing 63 square and 63 rectangular cards (in envelopes) to witness
14 Morrissey. After receiving the envelopes, witness Morrissey "examined them for visible
15 signs of manual or machine processing." *Id.* at 4. To determine the method of
16 cancellation, witness Morrissey looked for either the machine printed cancellation mark
17 containing printed text and a series of wavy lines, or the round cancellation stamp
18 indicating manual cancellation. *Id.* To determine the method of sortation, witness
19 Morrissey looked for either a printed bar code or an I.D. tag in orange fluorescent ink to
20 indicate machine sortation, and the absence of any barcode or I.D. tag to indicate
21 manual sortation. *Id.* at 4-5.

22 Based solely on these observations, witness Morrissey concluded that the
23 success rate for automated cancellation for square cards could have been as high as

1 80.45 percent, and for rectangular cards, 91.84 percent.³ *Id.* at 5. Witness Morrissey
2 also concluded that the success rate for automated sorting for square cards was 95.24
3 percent, and for rectangular cards, 100 percent. *Id.* at 6.

4 The fatal flaw in this experiment is that witness Morrissey attempts to determine
5 how a process works, and whether or not there are additional costs, by only observing
6 the input and the output of the process. Witness Morrissey himself admits that his
7 experiment does not reveal:

- 8 • the percentage of test pieces that were rejected on the first pass on an
9 Automated Facer Canceller System (AFCS),
- 10 • the number of pieces that required manual facing and/or one or more additional
11 passes on an AFCS or other piece of cancelling equipment,
- 12 • the number of pieces I.D. tagged on an AFCS or DBCS but rejected within
13 subsequent automated mail processing steps due to low aspect ratio and the
14 propensity of pieces to tip over,
- 15 • the number of pieces barcoded on a DBCS but rejected within subsequent
16 automated mail processing steps due to low aspect ratio and the propensity of
17 pieces to tip over, or
- 18 • the number of pieces that were successfully processed throughout the entire
19 automated mailstream without the manual handling of rejects. Tr. 21/7780-7781.

20
21 To claim that that an experiment that reveals none of the above can determine the
22 degree to which square single-piece First-Class letters are successfully processed by

³ These numbers also could have been as low as 70.44 percent for square cards, and 80.36 percent for rectangular cards. See GCA-T-3 at 5-6.

1 Postal Service automated equipment is similar to claiming that one can determine the
2 route someone took to travel from point A to point B and how much it cost to make that
3 trip by only looking at the outside of the vehicle to see if there is mud on it.
4

5 III. THE USPS ENGINEERING TEST CONDUCTED FOR GCA SUPPORTS THE
6 CURRENT ASPECT RATIO MACHINABILITY REQUIREMENTS
7

8 Two months before witness Morrissey conducted his square card experiment, the
9 Postal Service provided the Greeting Card Association the results of an extensive test
10 conducted by the Postal Service Engineering department in Merrifield, Virginia, at the
11 behest of the GCA.⁴ Among other things, the USPS Engineering test was designed to
12 determine the compatibility of different size cards with Postal Service letter automation
13 equipment. The receipt of the USPS Engineering test was acknowledged by witness
14 Morrissey in response to interrogatory USPS/GCA-T3-3; Tr. 21/7673.. I hereby
15 incorporate that USPS Engineering test report into my rebuttal testimony. As the
16 Commission will observe, the USPS Engineering test investigated each of the facets
17 that witness Morrissey's experiment failed to cover, and the results of this USPS
18 Engineering test support the retention of the current requirements for machinable letters
19 and cards.

20 In support of the USPS Engineering test, GCA provided 7640 envelopes to the
21 Postal Service that varied in size from 3x4 to 8-7/8x12-1/2, and in aspect ratio from 1 to

⁴ All of the cards in witness Morrissey's experiment were mailed on July 20, 2006. GCA-T-3 at 4. The Postal Service provided a final version of its test results to GCA on May 18, 2006. See Tr. 21/7673. The test report itself can be found at Tr. 21/7681 – 7712.

2.6. Refer to Table 1 in, *Test Report, Effects of Envelope Size, Aspect Ratio, and Color for Greeting Card Association (GCA) Samples* for a complete list of the sizes and aspect ratios included in the test. Tr. 21/7689.⁵ The aspect ratio test deck was made by stuffing, sealing, and stamping the sample envelopes, the same as if they contained greeting cards prepared by individuals. The prepared deck was processed the same as single piece First-Class Mail by passing it through a Dual Pass Rough Cull System and an AFCS. Observations were made on whether or not the test piece was successfully processed and sorted to an accept pocket, or if the test piece was rejected. If the test piece was rejected, where the piece was rejected by the automation equipment was recorded.

After testing was completed, the following results were obtained. All of the oversize pieces in the aspect ratio test deck, pieces taller than 6-1/8 inches or longer than 11-1/2 inches, were rejected either by the Dual Pass Rough Cull System, the flats extractor on the AFCS, or the Fine Cull Module on the AFCS. This result was expected, since the systems that rejected the oversized pieces were designed to reject either flat-sized pieces or pieces that exceed height and length requirements. The average number of pieces successfully processed and cancelled in samples sets that contained pieces that satisfied current size and aspect ratio machinability requirements was 99.85

⁵ GCA also provided 4507 envelopes that varied in sixteen different colors. Two different tests were design, one to determine the effect of size and aspect ratio on the capability of the AFCS to orient and cancel the test piece, and a second to determine effects of envelope color, ink color and stroke width on readability. Because the effects of envelope color, ink color, and stroke width on readability are not at issue here, I will limit my discussion to the effect of size and aspect ratio on the capability of the AFCS to orient and cancel the test piece.

1 percent. In all but two of those sets, 100 percent of the pieces were successfully
2 processed. In contrast, only 48.39 percent of the pieces in sets with an aspect ratio of
3 1, square pieces, were successfully cancelled and processed. Three sample sets with
4 pieces that satisfied height and length requirements, but that did not meet aspect ratio
5 requirements, had 100 percent of their piece successfully processed and cancelled.
6 The aspect ratios of those sample sets were 1.28, 1.29, and 2.60.

7 The performance of square cards, test pieces with aspect ratios of 1, performed
8 as expected, with approximately half of the test pieces being rejected by the letter
9 automation. Thus, on average, half of the low aspect ratio pieces mailed can be
10 expected to require extra processing and manual handling by the Postal Service. Since
11 low aspect ratio pieces may be returned to automation processing after some extra
12 manual handling, the fact that they may have been cancelled using the AFCS does not
13 indicate that there was no additional handlings or costs to process them.

14 Even though pieces in three sample sets that had aspect ratios that were slightly
15 outside of current aspect ratio requirement processed successfully, it is not
16 recommended that the aspect ratio requirement be adjusted. There is a marginal
17 benefit to the acceptance of mail just outside the current aspect ratio requirement when
18 compared to the combined effort to: 1) change widely published requirements; 2)
19 obsolete, revise, and redistribute templates and gauges; and 3) revise training materials
20 and current mail acceptance procedures. Therefore, no changes or exceptions are
21 recommended to the current size and aspect ratio requirements.

1 IV. THE PROPOSED INCREASE IN THE MAXIMUM ALLOWABLE WEIGHT OF AN
2 AUTOMATION MAIL PIECE IS NOT OPERATIONALLY REALISTIC
3

4 In his testimony, witness Otuteye (POSTCOM-T-8) suggests that the heavy letter
5 exception should be raised from 3.5 ounces to 4.0 ounces, based on the claim
6 that pieces mailed by Money Mailer, LLC weighing between 3.5 and 4.0 can are being
7 processed on Postal Service automated equipment. See POSTCOM-T-8. The problem
8 with this claim is that witness Otuteye is only considering a single mail piece. Testing
9 by the Postal Service has demonstrated that processing 3.7 ounces letter mail does
10 cause processing problems and damage to the automation equipment. It is not
11 possible to establish a weight limit on automated equipment such that there is a
12 certainty that all pieces below the limit will process well and all pieces above the limit
13 will process poorly, regardless of mail piece construction. Just as witness Otuteye
14 claims that his pieces are processing successfully, the Postal Service has experienced
15 countless instances of heavy letters below the 3.5 ounce limit processing poorly. The
16 limit must be established in consideration of the letter mail base in general, with a goal
17 of establishing an overall automated letter mail stream that has a high probability of
18 processing at an acceptable throughput and jam rate.
19

1 CHAIRMAN OMAS: This now brings us to oral
2 cross-examination.

3 There have been two requests for oral cross.
4 Mr. Horwood, would you please begin?

5 MR. HORWOOD: Yes, Mr. Chairman.

6 CROSS-EXAMINATION

7 BY MR. HORWOOD:

8 Q Mr. Laws, James Horwood representing the
9 Greeting Card Association. I'm going to question you
10 about your rebuttal testimony to Mr. Morrissey.

11 Let me pose a hypothetical to you. Assume
12 that the Commission and subsequently the Governors
13 adopted the Postal Service's proposed first class
14 rates with the single exception that they also adopted
15 the proposal made in Mr. Morrissey's testimony
16 regarding low aspect ratio letters.

17 Under those assumptions, what do you
18 understand would be the rate for square-shaped one
19 ounce single piece first class letters?

20 A I do not recall the exact number. I
21 remember that he had something in his testimony, but I
22 do not recall the number.

23 Q Okay. Let's look at page 4 of your
24 testimony then, referring particularly to the sentence
25 on lines 10 and 11.

1 Is it your understanding of GCA's proposal
2 as presented in Mr. Morrissey's testimony that it
3 would change the current aspect ratio standards for
4 machinability of first class letters?

5 A My understanding of his testimony is he was
6 requesting that the aspect ratio be lowered to allow
7 or -- let me correct that. He was just asking for an
8 exception for the ratio for square pieces, I believe.

9 Q Is it also your understanding that if that
10 proposal were adopted it would do away with the
11 distinction between standard shape machinable letters
12 and low aspect ratio letters?

13 A I believe, yes, that would be my
14 understanding that the low aspect and square would be
15 considered the same.

16 Q Okay. Turn please to page 9 of Mr.
17 Morrissey's testimony. On lines 20 to 22, doesn't Mr.
18 Morrissey there propose to keep the present
19 nonmachinable surcharge for low aspect ratio letters?

20 A As I read it, yes, he would continue to have
21 a surcharge for low aspect ratio pieces.

22 Q Okay. If you could turn to the last page of
23 Mr. Morrissey's testimony, which is Exhibit C?

24 A Is that page C-2?

25 Q Yes, that's right. It is page C-2. Just

1 look at that definition, and I would ask you whether
2 or not that definition of low aspect ratio mail as he
3 proposes is the same as the current machinability
4 standard regarding low aspect ratio?

5 A Sorry. Could you please repeat the
6 question?

7 Q Yes. Look at the definition on page C-2.
8 Isn't that definition of low aspect ratio mail that he
9 proposes the same as the current machinability
10 standard regarding low aspect ratio?

11 A It's similar. I think our definition is
12 just anything less than 1.3.

13 MR. HORWOOD: Okay. Thank you. I have no
14 more questions of Mr. Laws.

15 I think I used up my ability to ask
16 questions by asking so many of Mr. Thress yesterday.

17 CHAIRMAN OMAS: Thank you, Mr. Horwood.
18 Mr. Costich?

19 MR. COSTICH: Thank you, Mr. Chairman.

20 CROSS-EXAMINATION

21 BY MR. COSTICH:

22 Q I'm Rand Costich for the OCA. Good morning,
23 Mr. Laws.

24 A Good morning.

25 Q Could you look at page 13 of your testimony?

1 I don't have line numbers on my copy, but in the
2 middle of the paragraph there there's a sentence that
3 says, "Testing by the Postal Service has demonstrated
4 that processing 3.7 ounce letter mail does cause
5 processing problems and damage to the automation
6 equipment."

7 A That is correct.

8 Q I'd like to ask about the damage to the
9 equipment. The test that Witness McCrery referred to
10 in his testimony was conducted in 1999, or at least
11 the data was collected in 1999.

12 Do you know what kind of damage to the
13 equipment actually occurred during that test?

14 A It's my understanding it caused some belt
15 breakage and caused different parts of the equipment
16 to become out of align.

17 Q I'm sorry. What was the last?

18 A Different mechanical shields and guides
19 within the equipment to become out of align to help
20 guide the mail pieces.

21 Q Have there been any improvements in those
22 particular parts of the machines since 1999?

23 A No, there have not. We have not made any
24 improvements to the equipment, at least not to
25 increase the spectrum of mail that can be processed on

1 it.

2 Q So the belts are still made the same way
3 that they were made in 1999?

4 A That is correct. The belts are pretty much
5 the same. We may have identified different
6 manufacturers per our cost reduction, but no changes
7 for changing mail processing characteristics.

8 Q When you are looking at different vendors
9 for supplying the belts do you supply them with
10 specifications in terms of forces that the belts can
11 withstand without breaking?

12 A As far as defining the requirements for the
13 belt, that would be done by the original equipment
14 manufacturer. When we would go out and specify
15 additional belts it would be to maintain the same
16 characteristics.

17 Q The study that Witness McCrery cited refers
18 to excessive amounts of damage to the equipment.
19 There's a certain amount of damage even when pieces
20 being run are less than 3.5 ounces?

21 A There's always a possibility of damage.
22 There's always a possibility of a jam for various
23 reasons, which then could relate to damage.

24 It is, at least our experience is, not
25 specifically related to the weight of the mail piece.

1 Q Do belts break now under the current weight
2 limit?

3 A After time the belts will break because, as
4 anything mechanical, they wear and after a period of
5 time they do in fact break.

6 Q I'm still trying to get a sense of what
7 excessive means here. As far as I know, the study
8 that was provided has no quantitative information as
9 to what exact damage was occurring and why it was
10 considered excessive. Do you know?

11 A Since I was not the author of that report I
12 couldn't answer that. I'd have to defer to the actual
13 author.

14 MR. COSTICH: No further questions, Mr.
15 Chairman.

16 CHAIRMAN OMAS: Thank you, Mr. Costich.

17 Is there anyone else who wishes to cross-
18 examine Witness Laws?

19 (No response.)

20 CHAIRMAN OMAS: There are no questions from
21 the bench.

22 Ms. Portonovo, would you like some time with
23 your witness?

24 MS. PORTONOVO: Yes. Could I have five
25 minutes, please?

1 CHAIRMAN OMAS: By all means. Thank you.

2 (Whereupon, a short recess was taken.)

3 CHAIRMAN OMAS: Ms. Portonovo?

4 MS. PORTONOVO: Thank you, Mr. Chairman.

5 The Postal Service has no redirect.

6 CHAIRMAN OMAS: Thank you.

7 Thank you, Mr. Laws. We appreciate your
8 appearance here today and your contribution to our
9 record. You are now excused.

10 THE WITNESS: Thank you.

11 (Witness excused.)

12 CHAIRMAN OMAS: Mr. Rubin, would you please
13 identify your witness for the record?

14 Mr. Taufique is already under oath in this
15 proceeding, so you may proceed.

16 MR. RUBIN: Thank you. The Postal Service
17 calls Altaf Taufique as its next witness.

18 Whereupon,

19 ALTAF H. TAUFIQUE

20 having been previously duly sworn, was
21 recalled as a witness herein and was examined and
22 testified further as follows:

23 (The document referred to was
24 marked for identification as
25 Exhibit No. USPS-RT-12.)

1 DIRECT EXAMINATION

2 BY MR. RUBIN:

3 Q Mr. Taufique, do you have two copies of a
4 document designated USPS-RT-12 entitled Rebuttal
5 Testimony of Altaf H. Taufique on Behalf of the United
6 States Postal Service?

7 A Yes, I do.

8 Q Was this testimony prepared by you or under
9 your supervision?

10 A Yes, it was.

11 Q This testimony includes the corrections
12 filed on November 21 and December 6, 2006. If you
13 were to testify orally here today, would this be your
14 testimony?

15 A Yes, it would be.

16 Q Presiding Officer's Ruling No. 75 admitted
17 into evidence three documents sponsored by Witness
18 Tang in Docket No. C2004-1 subject to affirmation of
19 their continued accuracy.

20 These documents are the Rebuttal Testimony
21 of Rachel Tang on Behalf of United States Postal
22 Service, USPS-RT-2; the Response of Postal Service
23 Witness Tang to Presiding Officer's Information
24 Request No. 2; and the Response of Postal Service
25 Witness Tang to Notice of Inquiry No. 1 Concerning

1 Periodicals Data. Those are all from Docket No.
2 C2004-1.

3 Mr. Taufique, are you able to affirm the
4 continued accuracy of these three documents?

5 A Yes. The data that was filed in C2004-1 has
6 been updated in this particular docket, so we have
7 updated, better data on that particular issue, but the
8 data is accurate to the extent that it reflects the
9 status of the magazines and their preparation at the
10 time it was prepared.

11 MR. RUBIN: Thank you. I therefore request
12 that the rebuttal testimony of Altaf H. Taufique on
13 behalf of the United States Postal Service be entered
14 into evidence in this docket.

15 CHAIRMAN OMAS: Is there any objection?

16 (No response.)

17 CHAIRMAN OMAS: Hearing none, I will direct
18 counsel to provide the reporter with two copies of the
19 corrected testimony of Mr. Taufique.

20 That testimony is received into evidence and
21 is to be transcribed.

22 (The document referred to,
23 previously identified as
24 Exhibit No. USPS-RT-12, was
25 received in evidence.)

USPS-RT-12

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

REBUTTAL TESTIMONY
OF
ALTAF H. TAUFIQUE
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

1 My name is Altaf H. Taufique. I serve as an Economist in the office of
2 Pricing, which is a component of Pricing and Classification Department, within
3 the Marketing group at the United States Postal Service headquarters. I testified
4 earlier in this docket, presenting the First-Class Mail rate design proposals of the
5 United States Postal Service (USPS-T-32). I incorporate by reference the
6 autobiographical sketch reflected at page(s) ii to iii of that testimony.

Purpose and Scope of Testimony

The purpose of this testimony is to respond to the alternative Periodicals rate proposals by the Magazine Publishers of America, Inc. and the Alliance of Nonprofit Mailers, and by Time Warner, Inc., and explain why the Postal Service prefers its proposal.

I. Background

Over the last few years, the rate design philosophy for the Periodicals Outside County subclass has been to move consistently and gradually in the direction of lower-cost preparation, especially by providing incentives for reducing the number of containers, and for destination entry. This gradual approach was brought about by the desire of the Postal Service to temper the rate impact of the changes. In Docket No. R2001-1, the Postal Service proposed a discount for palletized pieces, a discount for editorial pounds dropshipped closer to destination, and new destination Area Distribution Center (DADC) piece and pound rates. The Docket No. R2001-1 settlement resulted in two separate pallet discounts, one general in nature, and one limited to dropshipped pallets. The second discount replaced the proposed dropship incentives for editorial pounds.

After the implementation of the Docket No. R2001-1 rates, the Postal Service worked with the mailing community on experimental rates for publications that were willing to co-palletize their mail pieces with other titles and dropship them at least to the destination ADC. This resulted in the filing of Docket No. MC2002-3 in September of 2002. The Postal Service offered modest discounts, without pushing up other rates, to change the behavior of mailers that were preparing at least part of their mail in sacks, but were willing to combine their bundles with other mailers to prepare at least an ADC pallet and dropship to the destination ADC or deeper.

Today co-palletization is an available option to many mailers because of the success of this co-palletization experiment.¹

The resulting rates have contributed to significant improvements in mail preparation during the last few years. The Postal Service, the Commission, and mailers can be justifiably proud that dropshipment to the destination facilities has increased, along with the number of pieces per container. Table 1 below shows the percentage of dropshipped and palletized Outside County Periodicals mail has increased significantly in the recent several years.

Table 1 Percentage of Dropshipped and Palletized Periodicals Mail

	FY 2003	FY 2004	FY 2005
Total OC Pieces	8,526,522,074	8,375,251,711	8,307,329,578
Total Dropship Pieces	4,306,076,943	5,083,751,740	5,166,251,379
Dropship % of Total	50.50%	60.70%	62.19%
Total Piece on Pallets	4,647,764,731	5,935,720,156	6,024,444,666
Palletized % of Total	54.51%	70.87%	72.52%
Source: FY2003, FY2004, FY2005 Periodicals Billing Determinants			

Table 2 shows that, as a result of the price signals, Periodicals mail's use of containers also has become more efficient.

Table 2 Periodicals Pieces per Container

	Periodicals Pieces per Container
FY 1996	69.91
FY 2000	95.00
FY 2005	113.49

Note: Copies per Container for FY2000

Source: Periodicals Mail Characteristics Study

¹ Subsequently, the Postal Service filed another co-palletization experiment in Docket No. MC2004-1, for high-editorial, heavier weight publications. This experiment has not been a success due to changed circumstances, including higher fuel costs, that were beyond the control of the Postal Service as well as the publishers that prepared high-editorial, heavier weight pieces.

1 For comparison, Standard Mail flats averaged over 400 pieces per container in FY2005.

2 Therefore, further improvements in Periodicals containerization should be possible, with the
3 proper incentives and straightforward price signals.

4 **II. Current Proposal**

5 The current proposal is a logical continuation of this philosophical approach to provide
6 modest incentives for improvement in preparation, while avoiding large rate impacts for non-
7 participants. Witness Tang's testimony (USPS-T-35) provides the justification for the current
8 proposal and its balanced approach.

9 During the development of the proposal for Periodicals' rate design, my colleague
10 witness Tang had to consider several options. One option was a complete overhaul of the rate
11 structure, as proposed by our colleagues representing Time Warner, Inc. Another option was to
12 reward mail that is already prepared efficiently, as proposed by our colleagues representing the
13 Magazine Publishers of America, Inc. and the Alliance of Nonprofit Mailers (MPA/ANM), and
14 supported by U.S. News & World Report, L.P. witness White (USNews-T-1).² The third option
15 was to continue with the balanced approach that has been pursued by the Postal Service. This
16 approach would continue to improve mail preparation, while being mindful of the impact on a
17 wide variety of mailers who currently may not be in the position of taking advantage of the co-
18 palletization and/or comailing opportunities that are being used by other customers.

19 This is not to say that the Postal Service is opposed, in principle, to the type of structural
20 changes proposed by Time Warner or the type of de-averaging proposed by MPA/ANM with a
21 5-digit pallet discount. In principle, the Postal Service generally agrees with cost-based rates,
22 but is concerned with the impact on mailers, which is discussed later in this testimony. A 5-digit

² I recognize that the proponents say that this will encourage new mail to palletize. Nevertheless, the inescapable fact is that 5-digit pallet preparation is already a fairly widespread practice in the community. While it arguably better reflects cost incurrence, it is not the most appropriate tool to encourage more effective containerization either through palletizing or rewarding the more efficient use of sacks.

pallet discount is not a bad idea in the abstract, but that type of discount is premature. The Periodicals' cost coverage is still meager. For all those who are interested in the viability of Periodicals as a subclass, greater weight should be placed on establishing pricing that leads to cost-reducing behavior, rather than simply rewarding existing efficient preparation. While nearly all pricing incentives will reward existing efficient preparation, it is important to construct the incentives such that they are obtainable for a wide range of mailers, especially those that are producing high-cost mailings.

The Postal Service believes the container rate introduced in the rate proposal sends a consistent and clear signal to the Periodicals community and continues to provide adequate incentives to encourage more mail preparation and worksharing. In witness Tang's response to MPA/USPS-T35-17, she provided the estimate of incentives to 12 publications which are currently co-palletized. It shows the incentives under the proposed rates would be at least comparable, if not bigger, for these current co-palletization participants. Moreover, in her later response to MPA/USPS-T35-28 (c), the updates from the source confirmed that it "may overstate the number of containers for the twelve publications in the "after" scenario, because the container count reflects the containers for the entire co-palletized pool, while the piece count reflects only one publication." While it appears difficult, if not impossible, to isolate container count of a specific publication from the entire mailing in the after-copal scenario, the "after-copal" postage has probably been overstated because of the inflated container count. A reasonable conclusion one can draw is that the actual after-copal postage would have been lower; hence the incentives offered under the proposed rates would have been even larger.

III. Impact on Mailers

We applaud the Commission for directing all the parties to evaluate their proposals on the basis of a diverse sample set of mailers — comprising 259 individual titles — that was originally introduced by my colleague witness Tang in Docket No. C2004-1. It was time-consuming and

expensive, but the Postal Service was able to gather the data for this evaluation. The results show the balanced nature of the Postal Service's proposal in terms of its impact on mailers.

Table 3 below shows mean rate increases from among the 259 sampled titles of 13.20 percent for the Postal Service proposal, 15.87 percent for the Time Warner proposal (reflecting the Time Warner revision filed on November 20, 2006), and 13.43 percent for the MPA/ANM proposal. Since the three proposals hit the same revenue target, the different mean rate increases can be attributed to the fact that the sample is not perfectly representative of all Periodicals volume. The key statistic, in my mind, is the standard deviation. Note that the Postal Service proposal has the lowest standard deviation overall (i.e., for "All Mailers"). This reflects the Postal Service's effort to limit the impact of its rate proposal on various mailers to as narrow a range as practicable, while still maintaining adequate incentives for efficient mail preparation. By mailer size, the Postal Service proposal has the lowest standard deviation for large and medium mailers, and the second lowest for small mailers. The result for small mailers is being substantially driven by just one observation among the 259. Note in the range section of the table that there is one small, low-density mailer for whom the Postal Service proposal produces a 43.73 percent rate increase. If just this one mailer is excluded from the sample (as a sensitivity analysis), the Postal Service's standard deviation for small mailers also becomes the lowest among the three proposals.

Table 3 Analysis of 259 Sampled Periodicals Mailings

**Analysis of 259 Sampled Periodicals Mailings
Comparative R2006-1 Rate Proposals (Percent Rate Change)**

	Range						Mean			Standard Deviation		
	USPS		Time Warner		MPA		USPS	TW	MPA	USPS	TW	MPA
	High	Low	High	Low	High	Low						
Large Mailers	19.30	4.99	24.47	0.15	16.10	1.70	10.54	9.94	9.49	2.30	5.30	2.93
Medium Mailers	18.06	7.38	47.46	3.95	22.20	4.40	11.55	16.27	12.23	2.05	8.92	3.86
Small Mailers	43.73	7.62	58.53	-5.99	22.60	6.40	16.04	18.38	16.48	4.25	12.54	3.52
All Mailers	43.73	4.99	58.53	-5.99	22.60	1.70	13.20	15.87	13.43	3.99	10.51	4.48
Large												
High Density	19.30	4.99	24.47	0.15	16.10	1.70	10.54	9.89	9.48	2.35	5.40	2.99
Low Density	10.75	10.21	11.19	10.97	10.10	9.50	10.48	11.06	9.80	0.38	0.16	0.42
Medium												
High Density	18.06	7.38	47.46	3.95	22.20	4.40	11.23	15.65	11.81	2.01	8.48	3.82
Low Density	16.70	8.69	46.01	8.04	20.40	7.10	11.87	16.90	12.64	2.07	9.38	3.89
Small												
High Density	29.14	7.62	58.53	-5.99	22.60	6.40	15.46	20.89	16.58	3.62	12.94	4.07
Low Density	43.73	11.14	46.31	-5.34	22.50	12.90	16.66	15.94	16.37	4.79	11.75	2.86
All												
High Density	29.14	4.99	58.53	-5.99	22.60	1.70	12.51	15.58	12.75	3.54	10.52	4.72
Low Density	43.73	8.69	46.31	-5.34	22.50	7.10	14.24	16.31	14.45	4.40	10.53	3.89

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The following nine charts present scatter diagrams showing the distribution of rate

changes around the mean. There is one chart for each combination of proposal and mailer size.

In the very first diagram, representing small mailers under the Postal Service proposal, the

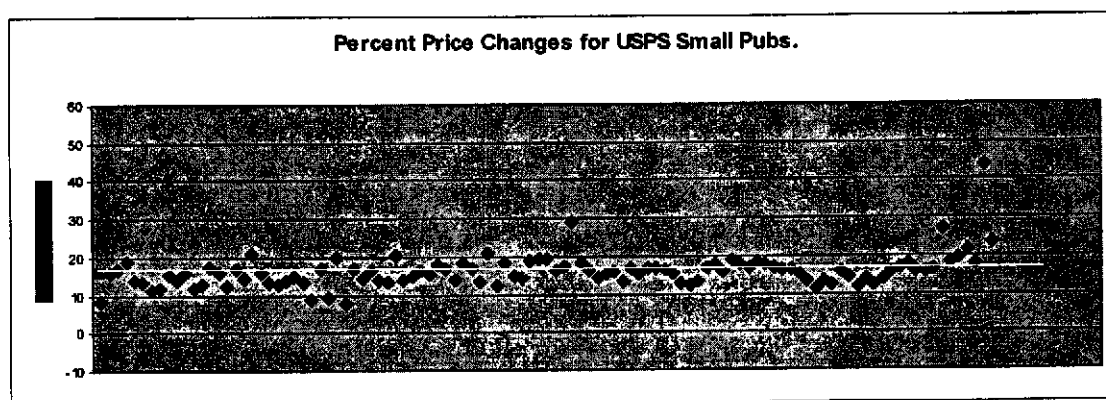
previously discussed 43.73 percent outlier is evident in the top-right area of the scatter.

Generally, the scatter diagrams confirm visually that the Postal Service proposal produces the

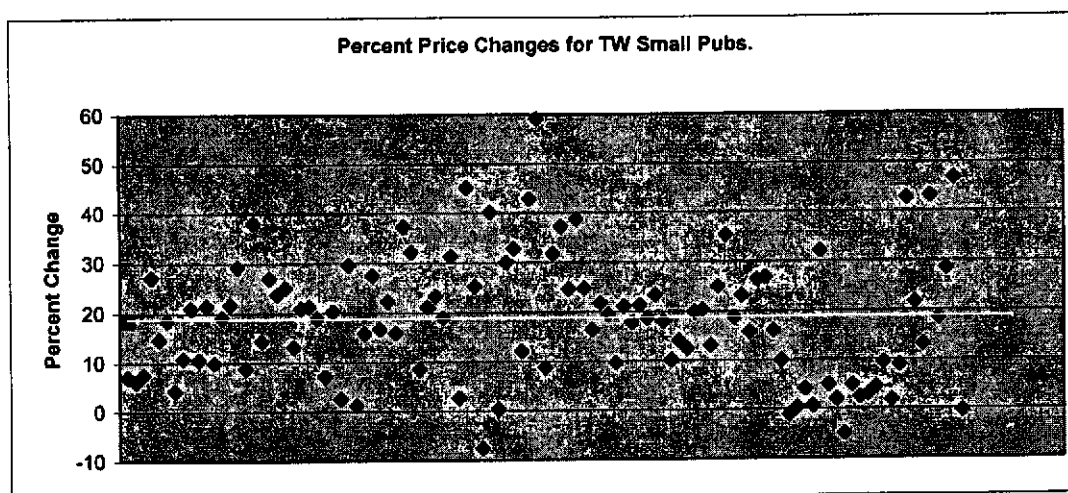
least variation for large and medium mailers, and slightly more variation for small mailers than

the MPA/ANM proposal.

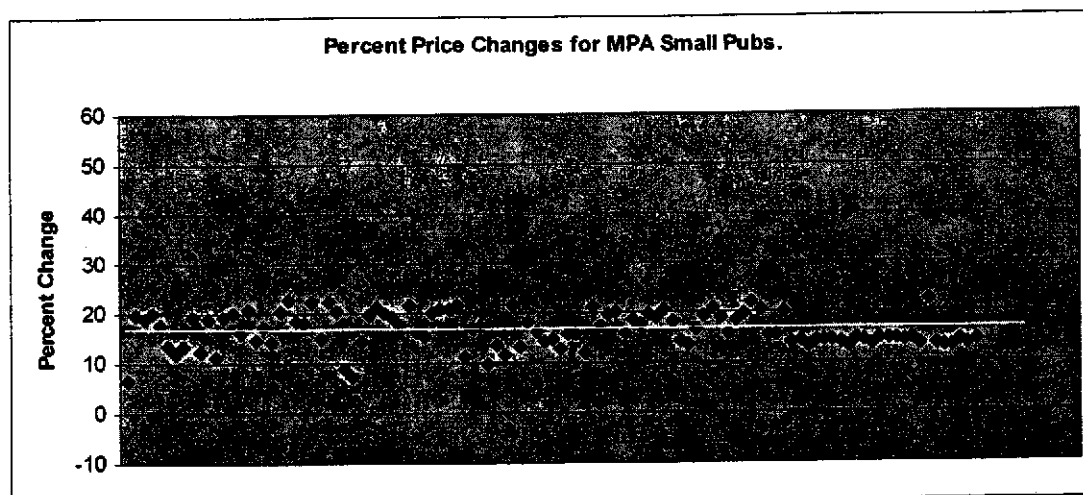
1 Figure 1: Percent Price Changes for USPS - Small Publications



2
3 Figure 2: Percent Price Changes for Time Warner - Small Publications



4
5
6 Figure 3: Percent Price Changes for MPA - Small Publications



1
Figure 4: Percent Price Changes for USPS - Medium Publications

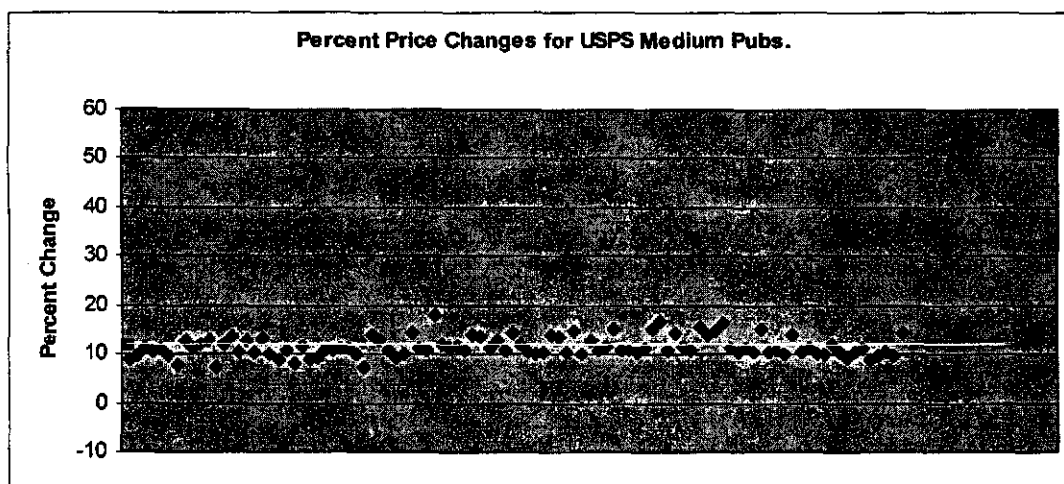


Figure 5: Percent Price Changes for Time Warner - Medium Publications

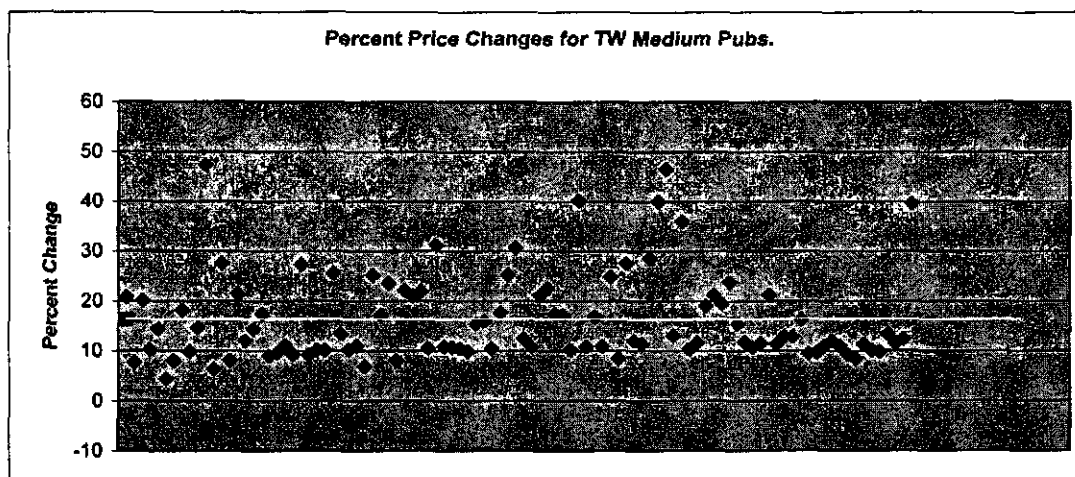
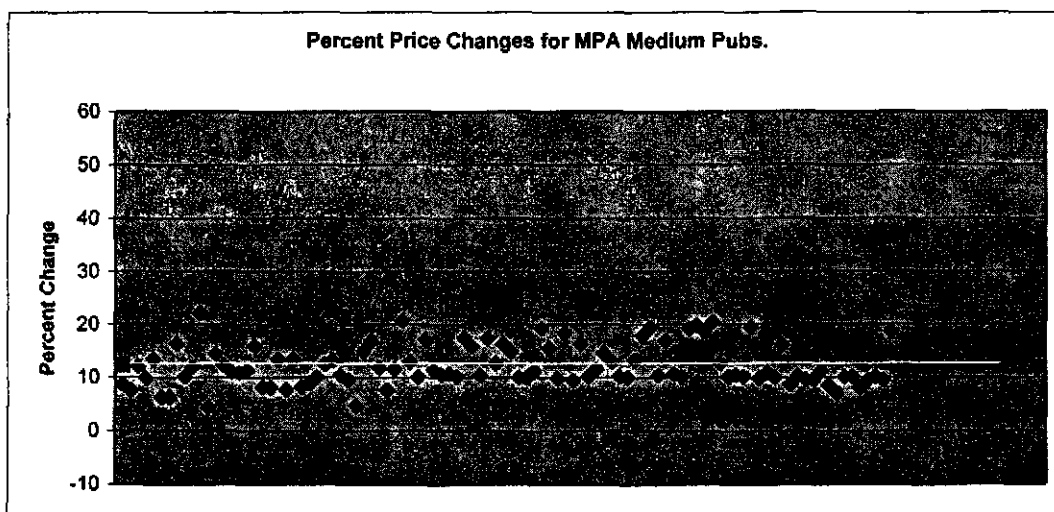
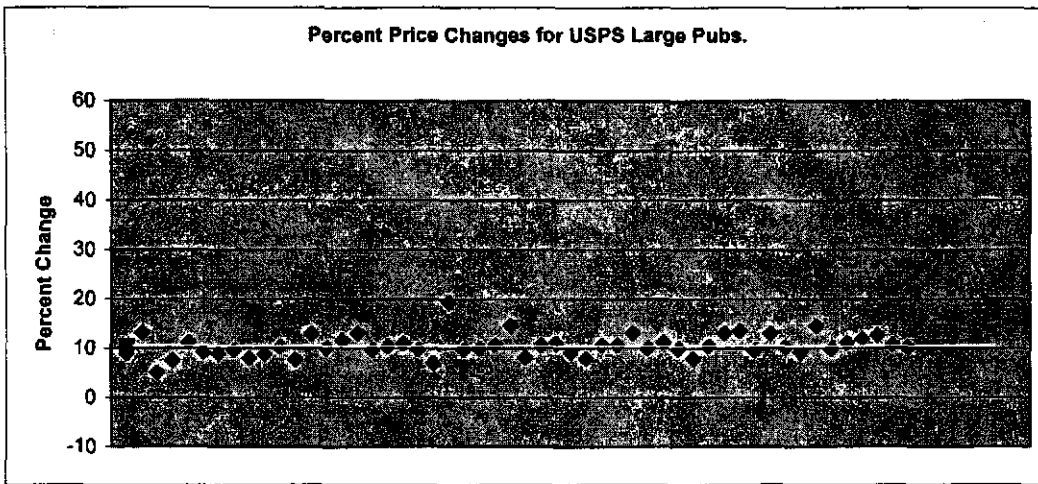


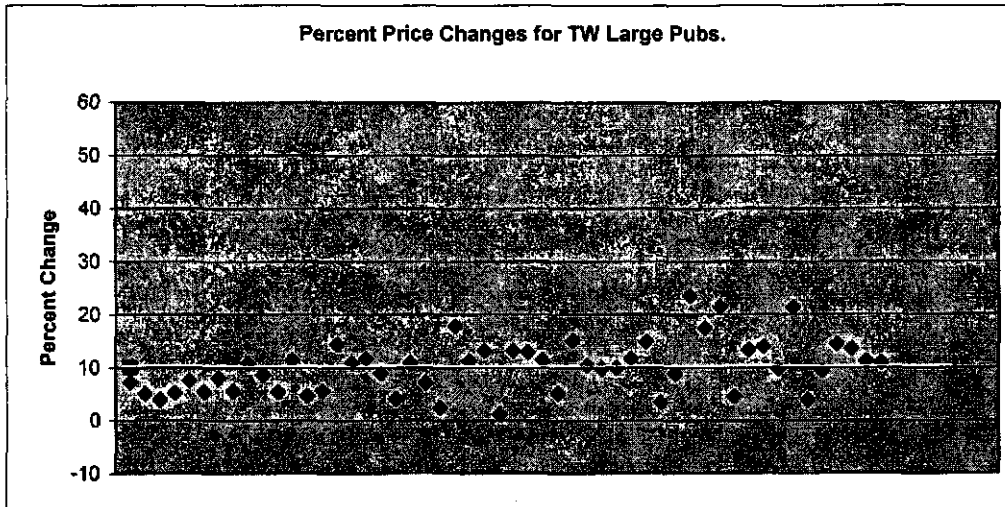
Figure 6: Percent Price Changes for MPA - Medium Publications



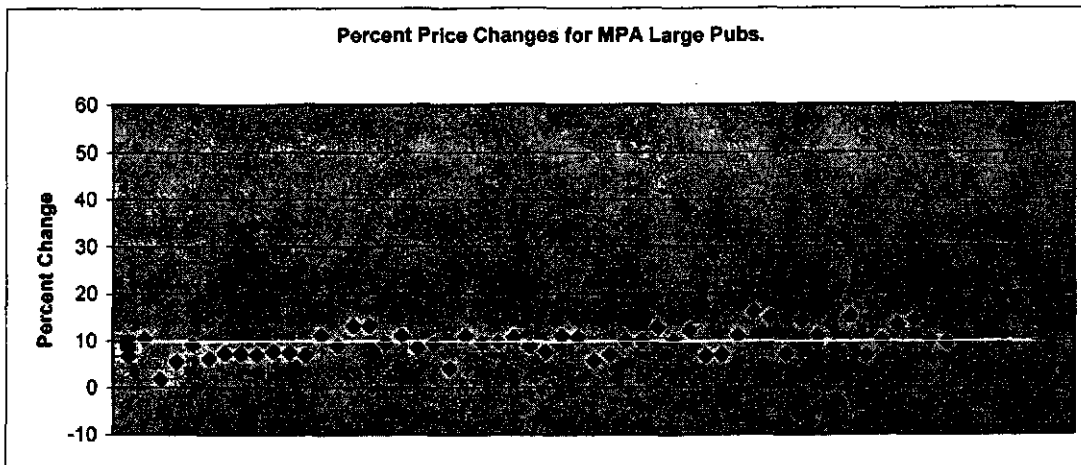
1
Figure 7: Percent Price Changes for USPS - Large Publications



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3
Figure 8: Percent Price Changes for Time Warner - Large Publications



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5
Figure 9: Percent Price Changes for MPA - Large Publications



2 Ride-Along Piece Rate

3 The Ride-Along rate was originally designed and introduced by me. In Docket No.
4 MC2000-1, I stated in my testimony (USPS-T-1) that:

5 Currently, Periodicals mailers face restrictions both on the amount and type
6 of advertising that can be included either within the publication, or as a
7 supplement. For example, commercially available products such as cosmetics and
8 perfumes are prohibited from being mailed at Periodicals rates. So are contents
9 which are not comprised of printed sheets such as cloth, leather, and other non-
10 paper material. All advertising matter or other enclosures or attachments that do
11 not meet the requirements for mailing at Periodicals rates can be attached to the
12 publication or included as enclosures, but pay a separate Standard (A) rate ...
13 [which is] prohibitively expensive ... (Page 2, lines 3 – 17)

14

15
16
17 The experimental "Ride-Along" classification change for Periodicals is
18 expected to provide a cost-effective method to mail what are now Standard (A)
19 supplements, including very small product samples, to targeted markets. (Page 4,
20 lines 2 – 4)

21 As witness Tang said in her response to MPA/USPS-T35-2, "(a) Ride-Along piece has
23 never been, and should not be, treated as an element of average Periodicals advertising
24 pounds." The Ride-Along rate was originally developed to respond to customer demand for a
25 new, effective, and affordable advertising medium for Periodicals mailers. Its rate has been
26 considerably cheaper than alternatives for mailing advertising materials (product samples, small
27 catalogs, etc.) that were used by publishers prior to the introduction of Ride-Along rates. The
28 Ride-Along weight is not included in the calculation of advertising pounds. The Ride-Along
29 revenue, as intended when the rate was established, is to be included in the total Periodicals
30 revenue and improve the overall class contribution.

31 The methodology witness Tang used to develop the proposed Ride-Along per-piece rate
32 is consistent with the original approach described on page 5 of my testimony in Docket No.
33 MC2000-1. While I understand that this approach leads, in this instance, to a higher-than-
34 average increase, it nonetheless adheres to the original intent of the Ride-Along program. To

- 1 the extent another approach is used that would lead to a lower price, the negative revenue
- 2 consequences would have to be addressed in the other Periodicals rate components to maintain
- 3 the Periodicals cost coverage target.
- 4

1 CHAIRMAN OMAS: This brings us now to oral
2 cross-examination.

3 Two requests for oral cross-examination have
4 been filed. Mr. Levy, would you like to begin,
5 please?

6 MR. LEVY: Thank you, Mr. Chairman.

7 CROSS-EXAMINATION

8 BY MR. LEVY:

9 Q Good morning, Mr. Taufique. David Levy for
10 ANM and MPA.

11 A Good morning.

12 Q This feels like the last day of class. Will
13 you go to page 3 of your rebuttal testimony?

14 Now, beginning on line 12 you state that the
15 MPA/ANM rate proposal for periodical mail would
16 "reward" mail that is already prepared efficiently.
17 Do you see that?

18 A Line 12?

19 Q Yes. Do you see the first word on line 12?

20 A Yes, I do.

21 Q The word reward?

22 A Yes.

23 Q By that expression are you intending to mean
24 that the MPA/ANM proposal will simply reward existing
25 efficient preparation, but not encourage any

1 additional efficient preparation?

2 A What I meant to say in comparing the
3 alternative proposals, what I meant to say is given
4 the status of periodicals cost increases, almost
5 anemic cost coverage, even negative cost coverage, the
6 goal the Postal Service has in mind is to provide
7 incentive for change in behavior where it counts the
8 most and not to reward behavior that is already
9 happening that is efficient.

10 Preparation of pallets, preparation of five
11 digit pallets, is definitely efficient preparation.
12 We could have offered a discount for a five digit
13 pallet. We chose to go with the container charge,
14 which is a direct incentive for people to prepare
15 their mail in sacks as opposed to rewarding a lot of
16 this behavior that is already happening.

17 There may be some additional five digit
18 pallets as a result of the proposed discount, but we
19 don't think -- and I think the Commission also in
20 R2001-1 or R2000-1, actually the Time Warner proposal
21 for five digit pallets, stated that this would not
22 change the behavior. There would not be a significant
23 change in behavior from this discount.

24 We think that given the current status of
25 the periodicals rate structure, given the cost

1 coverages, we think a direct incentive to change
2 behavior will be more appropriate than what MPA has
3 proposed because that would reward a lot of existing
4 behavior. Maybe some changes.

5 We do not know exactly because our
6 experience with copalletization tells us that even
7 making an SCF pallet with copalletization is
8 difficult, leave alone five digit pallets.

9 Comail has become more of an option than it
10 was because of our experiment conducted on
11 copalletization and the incentives that were provided.
12 We still think that the five digit pallet is not --
13 there will not be a significant change in behavior in
14 that regard.

15 Q I'm not sure I heard an answer to my
16 question.

17 A My answer is that there may be some change
18 in behavior because of the discounts, the five digit
19 pallet discount that is proposed by MPA, but we don't
20 expect any significant changes in behavior so that is
21 why we think our proposal is superior in this regard
22 given the circumstances of periodicals at this time.

23 Q So you think the MPA/ANM proposal may change
24 behavior, but the Postal Service proposal will produce
25 more efficient behavior, a greater change?

1 A If you look at the periodicals class, and I
2 was looking at Ms. Tang's testimony before I came over
3 here that she provided earlier in C2004-1. It seems
4 like over 80 percent of the publications produce less
5 than 20 percent of the mail. That is where the
6 behavior needs to be changed.

7 I think our container charge that we have
8 proposed in this particular case is a more direct way
9 of changing that behavior, again keeping in mind that
10 we need to be mindful of the impact of whatever
11 changes we propose on the smaller customers.

12 It appears that the real small mailers are
13 not represented in this proceeding. I remember the
14 time when Steve Furman used to represent the smaller
15 magazines.

16 We need to be mindful of the fact that there
17 are a number of small mailers that will be affected by
18 what we propose, and definitely we need to change
19 their behavior also so I think our proposal is a
20 balanced approach to the best extent that we can think
21 of to change the behavior, being mindful of the impact
22 on the smaller mailers.

23 Q I'm not sure I heard an answer to my
24 question. Is it your position that the Postal Service
25 proposal will cause more of an increase in efficient

1 mailer behavior than the MPA/ANM proposal or not?

2 A My position is the Postal Service's proposal
3 would bring about the change, and it is necessary to
4 bring about the change.

5 Q Will it produce more efficient mailer
6 behavior or not than the MPA proposal?

7 A Yes, where it's needed.

8 Q Do you have a copy of Mr. Glick's testimony,
9 MPA/ANM-T-2?

10 A I think I do.

11 MR. LEVY: Mr. Chairman, I'm going to ask
12 questions about a couple of pages of that. If the
13 witness has a copy of the testimony, I will not mark
14 them as an exhibit, but I can pass them out to the
15 Commission for ease of reference.

16 CHAIRMAN OMAS: That would be fine.

17 THE WITNESS: Could you give me the page
18 number?

19 MR. LEVY: We'll start at page 9.

20 CHAIRMAN OMAS: Thank you.

21 BY MR. LEVY:

22 Q Mr. Taufique, if we're on the same page of
23 MPA/ANM-T-2, Mr. Glick's testimony, there's a heading
24 that begins Evaluation of our Proposal With Regard to
25 Incentives for Efficiency. Do you see that?

1 A Yes, sir.

2 Q Now would you turn to page 10 of that
3 testimony? Do you see Table 3 at the top of the page?

4 A Yes, I do.

5 Q Have you ever seen that table before?

6 A I may have glanced over it before.

7 Q Do you have any reason to disagree with the
8 calculations in it?

9 A Probably not.

10 Q Have any of your colleagues, other
11 colleagues, had occasion to look at Mr. Glick's
12 testimony?

13 A I'm sure they did.

14 Q Have any of them told you that the
15 calculations in Table 3 were incorrect?

16 A No.

17 Q Do you have a copy of Mr. Glick's answer to
18 ABM Interrogatory No. T2-33?

19 A I don't.

20 MR. LEVY: This I would like to have marked
21 as MPA Exhibit 8. It's already in the record at
22 transcript page 10281, but for convenience.

23 (The document referred to was
24 marked for identification as
25 Exhibit No. MPA-X-8.)

1 BY MR. LEVY:

2 Q If you would take a look at this document,
3 MPA Cross-Examination Exhibit 8, and tell me whether
4 you have seen it before?

5 A This one I have not seen before.

6 Q Were you here in the hearing room when Mr.
7 Glick testified on the subject of this testimony?

8 A I was not here for his testimony. I was
9 here for the earlier testimony of MPA and ANM.

10 Q The purport of Table 2A and 3A at the bottom
11 of page 10281 is that the MPA/ANM rate design would
12 encourage more copalletizing and drop shipping?

13 I'm not asking you now whether you think the
14 numbers are correct, but that's the thrust of what
15 it's claiming, isn't it?

16 A Yes, it is claiming that.

17 Q Has anyone at the Postal Service told you
18 that these calculations are incorrect?

19 A No.

20 Q Mr. Taufique, would you turn back to page 3
21 of your rebuttal testimony? There's a Footnote 2 at
22 the bottom. Do you see that?

23 A Yes.

24 Q Beginning with the phrase, "I recognize
25 that..."

1 A Uh-huh.

2 Q The second sentence of that footnote reads,
3 "Nevertheless, the inescapable fact is that five digit
4 pallet preparation is already a fairly widespread
5 practice in the community." Do you see that?

6 A Yes.

7 Q And that is part of the support for your
8 position that the MPA/ANM proposal would consist of
9 too much reward for existing practices and not enough
10 incentive for additional efficiency?

11 A That, and when we talk about efficiency
12 there are two ways to look at it. One way to look at
13 it is in terms of encouraging more five digit pallets
14 or reducing the number of sacks.

15 From our perspective, the material handling,
16 and I presented some data on the number of pieces per
17 container for both periodicals and standard mail. Our
18 position is that given the cost coverage, given the
19 overall cost increases in periodicals, moving mail out
20 of sacks onto different types of pallets, any kind of
21 pallets, whether they're five digit or not in terms of
22 presort level, is preferable to providing incentive to
23 move from ADC pallets or SCF pallets to five digit
24 pallets.

25 I think that's where we disagree where the

1 focus should be because there is not a whole lot of
2 money to be given away in terms of the cost coverage
3 so that's where our disagreement is. We think moving
4 mail out of sacks is more important than the
5 preparation of finer pallets.

6 Q The MPA proposal also encourages people to
7 move out of sacks as well, doesn't it?

8 A Not in a direct fashion as much as the USPS
9 proposal does.

10 Q It does so in an indirect fashion?

11 A Indirectly it does.

12 Q Now, you keep talking about the low coverage
13 for periodical mail overall. I assume, and I'm asking
14 you, if the relevance of that is that the low coverage
15 means that in order to give discounts for five digit
16 pallets you have to raise the rates for something else
17 within periodical mail.

18 Is that the point you're making in terms of
19 the low overall coverage?

20 A Generally speaking from the perspective of
21 anybody who does rate designs for the Postal Service,
22 we are given a specific amount of dollars to be
23 recovered from a certain subclass. If you give a
24 discount then that has to be recovered somewhere else.

25 Q So the answer to my question is yes?

1 A That's always the case in all subclasses in
2 rate design.

3 Q Do you know what percentage of pieces of
4 Outside County periodicals are currently entered on
5 five digit pallets today?

6 A I don't have the number in front of me.

7 Q Do you have an order of magnitude, an
8 approximation in your head?

9 A Five digit pallets? I discussed that
10 earlier, but I don't have the number, no. I'm drawing
11 a total blank over here.

12 MR. LEVY: I'd like to have marked as MPA
13 Cross-Examination Exhibit 9 a copy of Mr. Glick's
14 response to USPS Interrogatory T2-19. Again, this is
15 for convenience. It's already in the record.

16 (The document referred to was
17 marked for identification as
18 Exhibit No. MPA-X-9.)

19 BY MR. LEVY:

20 Q Would you look at page 2 of your rebuttal
21 testimony?

22 A Yes.

23 Q And do you see Table 1 there?

24 A Yes, sir.

25 Q And do you see there's a line that says

Heritage Reporting Corporation
(202) 628-4888

1 Total OC Pieces?

2 A Right.

3 Q OC stands for Outside County?

4 A Outside County.

5 Q And you see the column for Fiscal Year 2005?

6 A Yes.

7 Q And there's a number that begins with eight?

8 A Right.

9 Q And that indicates that there were
10 approximately 8.3 billion pieces of Outside County
11 mail handled by the Postal Service in fiscal year
12 2005?

13 A Yes, sir.

14 Q Now if you would go back to MPA Cross-
15 Examination Exhibit 9. There's a discussion
16 indicating on the first page about six lines down that
17 there is approximately 750 to 765 million pieces of
18 Outside County mail that were entered on five digit
19 pallets. Do you see that?

20 A Yes, sir.

21 Q That would suggest a percentage of a little
22 under 10 percent?

23 A Seven hundred fifty million divided by 8.3?

24 Yes.

25 Q Do you have any reason to dispute Mr.

1 Glick's calculations?

2 A No.

3 Q Would you accept subject to check that these
4 pieces account for less than one-half percent of
5 Outside County revenue?

6 I'm sorry. The discount on these pieces
7 offered by MPA represents approximately \$10 million on
8 these existing pieces.

9 A It is. I agree with you, yes. I think I
10 looked at the number earlier when the case was filed,
11 but we still think that in terms of discounts I think
12 we need to focus. I think philosophically we
13 disagree.

14 I think regardless of the amounts,
15 philosophically we disagree on the major issue. Our
16 focus is on changing the behavior that needs to be
17 changed, and your focus seems to be on behavior that
18 is already efficient. That is where the difference
19 is.

20 Q But my question right now isn't about the
21 philosophy, but about some specific numbers; if a
22 discount of approximately \$10 million for pieces that
23 are already entered on five digit pallets represent a
24 leakage equal to about one-half of one percent of
25 Outside County revenue.

1 A You see, if you --

2 Q May I have an answer to the question before
3 you give your --

4 A That is true, but if your goal is to
5 increase five digit pallets and if, as you say, the
6 costs increase, the leakage will increase also.

7 Q Now one way that mailers could increase
8 their volume of mail on five digit pallets is by doing
9 more comailing?

10 A That is definitely one way, yes.

11 Q And another way would be to go into larger
12 individual comail pools?

13 A What is the difference between the two
14 options that you've described?

15 Q Well, let's assume conceptually you could
16 have the same total number of pieces that were
17 comailed, but they were entered into a smaller number
18 of larger pools. Do you understand the distinction?

19 A So sort of joining a comail? You cause the
20 existing comail pool to be larger?

21 Q You would merge the comailed pools into
22 fewer, but larger, comailed pools.

23 A That's a possibility. I don't know what the
24 restrictions are in terms of how expensive comailing
25 is when the pool gets larger.

1 Q Well, that's something that the printers and
2 the publishers would decide balancing the incentives,
3 and if there was a greater rate differential for
4 comailing and drop ship that could shift the balance.

5 Again, please answer yes or no before you
6 explain.

7 A That is one option. That is one way of
8 doing it.

9 Q Okay. Now let's talk about impacts on small
10 mailers, which you discuss not only in your prefiled
11 testimony, but you made some observations earlier this
12 morning.

13 Would you go to page 4 of your rebuttal
14 testimony?

15 A Sure.

16 Q I want to focus on line 22. There's a
17 heading, Impact on Mailers.

18 A Yes, sir.

19 Q Beginning there and running through page 9
20 you have a discussion of the impact on mailers.

21 A Yes, sir.

22 Q On page 5, line 8, you have the sentence,
23 "The key statistic in my mind is the standard
24 deviation."

25 A Yes, sir.

1 Q And what you're saying here is that you
2 believe that in comparing the relative impact on
3 mailers of two different rate designs the Commission
4 should focus primarily not on the highest percentage
5 increase caused by each of the rival proposals, but on
6 the standard deviation of the percentage increases.
7 Is that right?

8 A What I'm suggesting is that the Commission
9 should -- as I said earlier, there are a number of
10 small publications, and our goal was to keep the
11 increases in a narrow band and on the average as much
12 as possible. Standard deviation provides a
13 measurement of how broad or narrow the band is.

14 Q So the Commission, in minimizing rate
15 impact, should focus on minimizing the average
16 dispersion of the increases rather than minimizing --

17 A Because the average is --

18 Q May I finish my question?

19 A Sure. Sure.

20 Q The Commission should focus on minimizing
21 the average dispersion of the increases rather than
22 minimizing the highest values?

23 A Given the facts that we're proposing, a
24 container rate that is going to affect some mailers
25 who prepare their mail in sacks, there are going to be

1 some high increases in the area especially of more
2 mailers with lower density and so we'll accept the
3 fact that we want to make it as painless as possible,
4 but there are going to be some discounts for some as a
5 result of the change you're going to make.

6 So in that case we're focusing on two
7 things. We are focusing on the average increase and
8 how many people are being affected around the average
9 increase. So that is why I think standard deviation
10 becomes a key strategy that people look at.

11 Q So to answer my question, you would have the
12 Commission minimize the standard deviation rather than
13 minimize the highest percentage increase?

14 A I would have the Commission look at the
15 average increase because there are two statistics,
16 because the highest increase could be an outlier in
17 some cases, so I would look at the average increase as
18 well as the dispersion around the mean.

19 Q And so to answer my question, you would not
20 have the Commission look at minimizing the highest
21 percentage increase?

22 A I would evaluate if I was the Commission,
23 and the Commission will do that. They will evaluate
24 what the impact is and on who the impact is and what
25 is the dollar value of the impact.

1 In fact, the highest increase that you're
2 looking at in our case, over 40 percent, there are 17
3 pieces of Outside County mail that because of the
4 distribution of the destination addresses and L009
5 requirements of making sacks they get into three
6 different sacks.

7 That is why their increase is significantly
8 higher, so I would take into account there will be
9 some outliers, and there will be some discomfort as a
10 result of what we are proposing.

11 Q I'm sorry. My question is just the ranking
12 of the tests that you would use. You would give
13 higher priority to minimizing the dispersion as
14 measured by the standard --

15 A I would give the highest ranking to the
16 overall --

17 Q I'm sorry, sir. I haven't finished my
18 question.

19 You would give the highest priority to
20 minimizing the dispersion as measured by the standard
21 deviation rather than minimizing the highest
22 percentage increase?

23 A No. My highest priority would be to look at
24 the average increase first.

25 Q And then second?

1 A And then the standard deviation and then the
2 outliers. That's the way I would look at it.

3 Q And by outliers you mean the highest
4 percentage increase?

5 A Yes. In some cases there would be a few
6 outliers. There would be.

7 Q Okay. Standard deviation is a statistical
8 term, isn't it?

9 A I would hope so.

10 Q And it's defined as the square root of the
11 variance?

12 A Yes, basically it's the square root of the
13 variance.

14 Q And the variance is a weighted average of
15 the squares of the deviations of the individual
16 outcomes from the mean --

17 A Yes. You subtract the mean from the
18 reobservation. You take the absolute value of the
19 square root and divide it by N minus one, depending on
20 the degree, and then you take the square root of that,
21 and that gives you the standard deviation accurate.

22 Q Let me try to finish the question. The
23 variance is a weighted average of the squares of the
24 deviations of the individual outcomes from the mean
25 value?

1 A Yes.

2 Q Would you go to page 7 of your rebuttal
3 testimony? I want to focus on Figure 1 and try to use
4 it to illustrate in graphic terms this possibly rather
5 abstruse concept.

6 Graphically I want to go step-by-step to
7 illustrate how you would do a standard deviation. The
8 white horizontal line in Figure 1 that's at about 16
9 or 17 percent, that is the mean or average rate
10 increase for small publications under the Postal
11 Service proposal?

12 A You're looking at Figure 1?

13 Q Yes.

14 A The white line is the average, yes.

15 Q Okay. If you're doing a standard deviation,
16 one way to do it would be to measure the vertical
17 distance between each dot and that white line? That
18 would be the first step?

19 A Right.

20 Q And the next thing you would do would be to
21 square each of those values, those differences?

22 A Yes. There are two ways of doing it. You
23 could take the absolute value of the square root.

24 Q Okay. And then the next step or a next step
25 would be to take the average of the squared values?

1 A The average of the squared values.

2 Q The average of the squared differences.

3 A Right, depending. Yes. The observation
4 would be a minus one in some cases because you lose a
5 degree of freedom by doing that.

6 Q And that result would be the variance?

7 A That result would be the variance.

8 Q And then if you took the square root of the
9 variance you'd have the standard deviation?

10 A It sounds like the first day of school
11 today. Yes. To the best of my recollection, yes,
12 that is how the standard deviation would be
13 calculated.

14 Q So the standard deviation is based on a
15 measure of an average distance of all of the points
16 from the mean value?

17 A Right.

18 Q It's not a measure of the maximum distance
19 from the mean value?

20 A No.

21 Q If the results for most mailers are tightly
22 clustered around the mean value, you could have a low
23 standard deviation even if some mailers get really big
24 increases?

25 A I said I agreed to that fact earlier. Some

1 mailers -- in fact, if you look at the chart there are
2 about four of them that have higher increases than
3 what they would have under MPA's proposal.

4 Q The highest increase under the MPA proposal
5 we can agree is 22.6 percent for small mailers?

6 A Something like that, yes.

7 Q And the four increases that are above 22.6
8 percent under the Postal Service proposal for small
9 publications are 23.5 percent, 26.8 percent, 29.1
10 percent and 43.7 percent?

11 A That sounds right.

12 Q Will you accept that subject to check? I
13 can give you the data right now if you'd like to
14 check.

15 A That's fine. I'll accept that.

16 Q And each of those four increases is higher
17 than the maximum increase under the MPA/ANM proposal,
18 correct?

19 A Four out of how many? What is the total
20 observation there?

21 Q Each of those points is higher than the
22 maximum for the MPA/ANM proposal?

23 A Yes. There are four out of the total
24 population of small publications where the average
25 increase for the publication would be higher under the

1 USPS proposal compared to the MPA proposal.

2 Q Now, the point you keep wanting to insert in
3 your answers is that the Commission should give little
4 weight to those points because they are a small
5 fraction percentage of the total sample?

6 A My point, if there was a way to make this
7 completely painless we would do it, but the structure
8 change that we are proposing in this particular case
9 balances the changes that you want to bring about with
10 mitigation of the increases on the small mailers.

11 That is what we have. We have two
12 considerations -- to move in the right direction, as
13 well as mitigate the impact on small mailers.

14 Q Now, the sample in Figure 1 or -- I'm
15 sorry -- the dots in Figure 1 represent observations
16 in the sample that was used in response to POIR 19?

17 A Yes, sir.

18 Q And the total sample is 251 publications
19 approximately?

20 A Yes.

21 Q And about 100 of them were small
22 publications?

23 A Probably. I'm not --

24 Q And there are about 30,000 publications in
25 the United States roughly?

1 A Slightly over 29,000, yes, so approximately
2 30,000.

3 Q And about how many of those titles are small
4 publications defining small as the size range that's
5 represented by the 100 observations in the sample?

6 A Witness Tang in her testimony in C2004-1
7 suggested that about 84 percent of all the
8 publications are small publications.

9 Q So the 100 dots in Figure 1 represent a
10 universe of about roughly 84 percent of about 30,000?

11 A Yes.

12 Q So roughly about 25,000? Those 100 dots
13 represent about 25,000 publications, correct?

14 A Assuming that the sample is perfectly taken.

15 Q Right. I mean, that's an assumption one
16 makes in sampling generally, right?

17 A Right, that they're always --

18 Q I mean, that's the nature of a sample, isn't
19 it?

20 A Yes.

21 Q A sample of 100 for a universe of roughly
22 25,000 is a sampling ratio of about 250 to one or one
23 to 250?

24 A One more time, please?

25 Q Sure. I just want to get what's the

1 sampling ratio if you have a sample of 100 out of a
2 universe of about 25,000?

3 A A sample of 100? Yes, I think you're right.

4 Q So the publication that's getting the 43.73
5 percent increase could represent approximately 250
6 publications?

7 A Possible.

8 Q And the dot representing the 29 percent
9 increase could also represent approximately 250
10 publications, correct?

11 A Possible.

12 Q And the four dots that are higher than the
13 maximum of the MPA increase could represent
14 approximately 1,000 publications?

15 A That's a possibility, but again, as I said,
16 the goal is to change behavior. We try to make it as
17 painless as possible, but there are going to be some
18 that will be subject to higher increases. We'll try
19 to work with these customers also.

20 This is not the end of the process for the
21 Postal Service. We want to look at options for
22 working with these small customers on changing their
23 behavior in other ways than what we have proposed in
24 this particular docket, so don't think in periodicals
25 this is the end of all that we need to do. We need to

1 go further and then look at positive incentives for
2 the small customers also.

3 Q Mr. Taufique, aren't those essentially the
4 same arguments that Time Warner gave in the C2004
5 complaint case in defense of its proposed percentage
6 increases; that essentially the people can work with
7 the mailers to get them to change their behavior,
8 temper the shock?

9 This is for the greatest good of all, so
10 therefore we shouldn't worry about the outliers
11 getting hit with big increases.

12 A If you look at Figures 1, 2 and 3 you can
13 see the difference between our proposal and Time
14 Warner's proposal in terms of dispersing the payment,
15 so I think you don't have to go very far in terms.

16 We were very careful in terms of addressing
17 those issues because at the Postal Service we are
18 concerned about making sure that our customers do not
19 go through a rate shock as we go through rate
20 increases. Our goal is not to push them out of
21 business.

22 Q Mr. Taufique, I want to shift gears a little
23 bit and go back and focus on the basis for your belief
24 that the second measure of most important measure of
25 rate impact should be the standard deviation rather

1 than the highest percentage increase.

2 Are you aware of any Commission decision
3 that supports so high a role for a standard deviation
4 in evaluating a rate impact?

5 A I think a lot of the issues covered in
6 periodicals is fairly new. I don't think we've had --
7 at least in my 10 years of experience with Postal rate
8 making I think periodicals -- they're covering a lot
9 of new ground in periodicals in terms of looking at
10 the impact on mailers and changes in mailer behavior,
11 changes in the preparation of mail.

12 It doesn't surprise me that we don't have
13 anything in the past decisions that looked at these
14 kind of things to evaluate the impact of the proposal.

15 Q Mr. Taufique, I'm assuming you've looked at
16 some part of the Commission's decision of October 2005
17 in the Time Warner complaint case?

18 A I looked at some parts this morning
19 actually.

20 Q In fact, wasn't the issue of rate impact of
21 various rate designs a major subject of discussion in
22 that case?

23 A And we are mindful of that in our proposals.

24 Q I'm sorry. Yes?

25 A Yes, and we believe we have taken that into

1 account in our proposals.

2 Q And the Commission's October 2005 decision
3 in the complaint case discusses the impact of various
4 rate designs, doesn't it?

5 A I'm sure it does, yes. I've looked at it
6 before.

7 Q Now, I did a word search on the pdf of that
8 decision last night. Would you accept, subject to
9 check, that the phrase "standard deviation" doesn't
10 appear in the decision?

11 A I'm not surprised.

12 Q In fact, the Commission's discussion of rate
13 shock in that case focuses on maximum percentage
14 increase, doesn't it?

15 A Again, if you're looking at the Time Warner
16 proposal in the complaint case, the Time Warner
17 proposal in this particular case, I think there is a
18 significant difference between our proposal and Time
19 Warner's proposal.

20 We have been mindful of that, so our ranges
21 are -- in fact, if you look at the rate impact, if I
22 could take you to the chart that we have presented on
23 page 6 of my testimony, our average increase is the
24 lowest in most of the cases except for if you look at
25 the mean, which is the second bigger column to the

1 right, for medium mailers, small mailers and all
2 mailers. Our rate increase is the lowest on average.

3 I think standard deviation is one term if
4 you're looking at it, but overall the average increase
5 in most cases under our proposal is the lowest
6 compared to the other two proposals that are under
7 discussion at this point in time.

8 So it's not just the standard deviation. I
9 think it's the average increase also that you're
10 focusing on.

11 Q Mr. Taufique, at the beginning of your
12 appearance on the stand you and your counsel moved
13 into the record a couple of documents from the
14 complaint case, didn't you?

15 A As we were asked to do.

16 Q And one of those was the rebuttal testimony
17 of Rachel Tang?

18 A I think, yes, it was.

19 Q And that testimony discusses rate impact,
20 doesn't it?

21 A Yes, sir, it does.

22 Q It doesn't mention standard deviation, does
23 it?

24 A Probably not.

25 Q You also moved into evidence the Postal

1 Service's response to Presiding Officer's Information
2 Request No. 2 in the complaint case, the Time Warner
3 complaint case, didn't you?

4 A Yes, that was offered.

5 Q And it also discusses rate impact?

6 A Yes.

7 Q And it works with a sample of publications
8 that's a predecessor to the sample that we analyzed in
9 response to POIR 19?

10 A Right.

11 Q And that discussion doesn't mention standard
12 deviation either, does it?

13 A Yes, it does not, but it does not mean that
14 we cannot use a different statistic in evaluating a
15 proposal.

16 Q You also mentioned that you should look at
17 the average percentage increase. The average
18 percentage increase for small publications imposed by
19 the Postal Service proposal is slightly over 16
20 percent. Is that correct? 16.04.

21 A In the sample or the --

22 Q On page 6 of your current testimony in Table
23 3. I'm sorry. I'm being confusing. I'm shifting
24 gears now. I'm going back to your testimony in the
25 present case.

1 A Right, but for all mailers it's 13.2
2 percent.

3 Q But for small mailers the Postal Service
4 proposal is 16.04 percent?

5 A Right.

6 Q And in the MPA/ANM proposal the
7 corresponding percentage is 16.48 percent?

8 A Yes, sir.

9 MR. LEVY: Thank you. That's all I have.

10 Thank you, Mr. Chairman. I would ask that
11 the cross-examination exhibits I marked be admitted or
12 readmitted into evidence.

13 CHAIRMAN OMAS: Without objection. So
14 ordered.

15 (The documents referred to,
16 previously identified as
17 Exhibit Nos. MPA-X-8 and
18 MPA-X-9, were received in
19 evidence.)

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MPA-X-8

**R2006-1
RESPONSE OF MPA/ANM WITNESS GLICK
TO ABM/MPA/ANM-T2-33**

ABM/MPA/ANM-T2-33. With reference to your response to ABM/MPA/ANM-T2-8 and to tables 2 and 3 in your testimony, please respond to the following: Is it possible that the results for co-palletized publications would be different in meaningful ways than the results for co-mailed publications? Why?

RESPONSE

Yes, it is possible. Co-palletization does not merge pieces from multiple publications into the same bundles, and thus does not increase bundle presortation. Moreover, co-palletization is more likely than co-mailing to produce DADC-entered pallets, rather than DSCF-entered pallets. This is because co-palletization is more likely to generate ADC pallets. These two differences could cause different results in Tables 2 and 3 for co-mail and co-palletization.

Nevertheless, the potential for these differences does not change the conclusion that the MPA/ANM proposal provides more incentive than the USPS proposal to co-palletize or co-mail periodicals.

To illustrate better how these differences and similarities would affect the results shown in Tables 2 and 3, I have produced a modified version of MPA/ANM-LR-4 that simulates the impact of co-palletization on the publications shown in Tables 2 and 3. This modified version of the library reference will be filed under protective conditions as MPA/ANM-LR-5.

The "Co-pal" billing determinants shown in MPA/ANM-LR-5 assume that bundle presort for these publications is the same as if mailed solo and that two-

**R2006-1
RESPONSE OF MPA/ANM WITNESS GLICK
TO ABM/MPA/ANM-T2-33**

thirds of the dropshipped pieces are entered at the DADC and the other one-third are entered at the DSCF. Below is a combined Table 2 and Table 3 for the Simulated Co-Pal scenario. As the combined table shows, the MPA/ANM proposal increases the incentives to co-palletize and dropship much more than does the USPS proposal.

I have also supplied a version of Table 2 for the MPA/ANM proposal. A comparison of the two tables shows that the MPA/ANM rate increase is smaller than the USPS rate increase for all of the publications under the "Co-palletization" scenario. Further, while the MPA/ANM proposal does produce larger increases than the USPS proposal for "solo" mailings, all of the increases for "solo" mailings are within 7.5 percentage points of the subclass average.

**Tables 2A and 3A
(Simulated Co-Palletization Scenario)**

Publication	Number of Pieces/Issue	% Rate Increase (USPS)		% Increase in Incentive	
		Solo	Copal	USPS	MPA/ANM
Farm Collector	38,036	11.6%	13.2%	2.0%	20.1%
Gas Engine	15,192	13.2%	12.8%	10.7%	26.9%
Harper's	155,472	10.6%	11.1%	6.5%	32.7%
Herb Companion	23,632	15.5%	17.0%	7.5%	34.2%
Interweave Knits	33,637	11.5%	11.3%	12.2%	26.3%
Mother Earth News	217,676	10.0%	10.7%	6.3%	19.7%
Natural Home and Garden	27,760	12.8%	13.7%	8.4%	30.1%

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TO ABM/MPA/ANM-T2-33

Table 2B
(MPA/ANM Rates for Simulated Co-Palletization Scenario)

Publication	Number of Pieces/Issue	% Rate Increase (MPA/ANM)	
		Solo	Copal
Farm Collector	38.036	13.8%	12.7%
Gas Engine	15.192	15.6%	13.3%
Harper's	155.472	12.9%	10.2%
Herb Companion	23.632	19.2%	16.5%
Interweave Knits	33.637	13.8%	10.8%
Mother Earth News	217.676	12.0%	10.3%
Natural Home and Garden	27.760	16.2%	13.4%

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RESPONSE OF MPA/ANM WITNESS GLICK
TO USPS/MPA/ANM-T2-19
PAGE 1 OF 1

USPS/MPA/ANM-T2-19 Please refer to MPA-ANM-LR-1.xls, worksheet "5-Digit Pallet", which presents the base year and test year piece volumes on 5-digit pallets. Please explain fully and show step-by-step how the figure 765,065,184 in cell C6 was derived. Please provide exact source references, including appropriate references to USPS-LR-L-91, if needed.

RESPONSE

Below I explain how I estimated the base year volume on 5-digit pallets.

My approach to estimating the volume of pieces on 5-Digit pallets appears to slightly overstate the number of pieces on 5-Digit pallets because it applies the 5-Digit pallet proportion derived from Periodicals Outside County flats to total Periodicals Outside County volume. This overstatement is confirmed by TW witness Stralberg's slightly lower estimate (756 million pieces) of the number of pieces on 5-Digit pallets. Given this, Periodicals Outside County revenue is likely to be slightly higher (\$100,000-\$200,000) than estimated in MPA/ANM-LR-1.

Step 1 -- Determine proportion of Periodicals Outside County flats on 5-Digit pallets using data from LR-L-91 Tables, worksheet Table 4.

$$=SUM(E118,E122,E72,E76,E59,E62,E35)/SUM(G38,G51,G64,G79,G96,G109,G124)$$

Step 2 -- Multiply proportion from Step 1 by Periodicals Outside County Base Year volume (MPA/ANM-LR-1, worksheet "Base Year", cell B56).

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RESPONSE OF MPA/ANM WITNESS GLICK
TO USPS/MPA/ANM-T2-20
PAGE 1 OF 1

USPS/MPA/ANM-T2-20 Please refer to MPA-ANM-LR-1.xls, worksheet "RR TYAR", cell B58, worksheet "NP TYAR", cell B57, and worksheet "CR TYAR", cell B39, where the test year after-rates pieces on 5-digit pallets were calculated by applying the volume forecast ratios.

- (a) Given the proposed 4.2-cent 5-digit-pallet per piece discount, do you expect mailers to prepare more 5-digit pallets? Please explain.
- (b) Please confirm that, by applying the volume forecast ratios, the mail pieces on after-rates 5-digit pallets would be smaller than that of the before-rates. If you do not confirm, please explain.
- (c) Please state whether these pieces would be on more, the same, or fewer 5-digit pallets, and explain your rationale fully.
- (d) Please state whether there would be more or fewer pallets and explain your rationale fully. Are those going to be smaller and lighter 5-digit pallets or bigger and heavier pallets?
- (e) How many pieces and pounds are there on an average 5-digit pallet? Please show your calculation and/or references.

RESPONSE

In answering these questions, I assume that subparts (c) and (d) are referring to my response to subpart (a), not my response to subpart (b).

(a) I am proposing a 1.5-cent per-piece 5-Digit pallet discount (relative to pieces on other pallets). I expect that this will result in a higher proportion of Periodicals Outside County pieces being entered on 5-digit pallets in TYAR than TYBR. While I cannot say for sure, it will probably result in a larger number of pieces entered on 5-digit pallets as well as a larger number of 5-digit pallets.

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RESPONSE OF MPA/ANM WITNESS GLICK
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(b) Yes. My projections assume constant mail mix to ensure that the TYAR revenue estimates are based upon the same mail mix as the TYAR cost estimates.

(c)-(d) Assuming constant mail mix, the average number of pieces per 5-digit pallet would be the same Before Rates and After Rates, so the answer would depend on the number of pieces on 5-digit pallets. In reality, the outcome is unclear. The most likely ways to increase the number of pieces on 5-digit pallets are increasing the aggregate amount of co-mailing, increasing the size of individual co-mail pools, and reducing pallet minimums. It is unclear whether the aggregate effect of these changes will be an increase or a decrease in the average size of 5-digit pallets.

Note that the Postal Service's container-handling costs for these pallets are limited by the fact that they are entered at the DSCF almost ninety percent of the time (see page 29 of my direct testimony) and, when entered at the DSCF, they generally require only a crossdock to the delivery unit.

(e) I am not aware of an estimate of the average number of pounds per 5-digit pallet, but the average number of pieces per 5-digit pallet is approximately 1,079. I calculated this figure by dividing the number of pieces on 5-digit pallets (TW-LR-1, R2006 Volumes__53270.xls, worksheet "Pieces", cell L27) by the number of 5-digit pallets (TW-LR-1, R2006 Volumes__53270.xls, worksheet "Containers", cell J19).

1 CHAIRMAN OMAS: Mr. Keegan?

2 MR. KEEGAN: Thank you, Mr. Chairman.

3 CROSS-EXAMINATION

4 BY MR. KEEGAN:

5 Q Good morning, Mr. Taufique. I'm Tim Keegan
6 appearing on behalf of Time Warner.

7 A Good morning.

8 Q I provided your counsel earlier, and I take
9 it you have a copy as well, with some excerpts from
10 the Commission's order in the complaint case, Order
11 No. 1446.

12 A Let me find it.

13 Q I think I'm just going to refer to it twice
14 this morning, and this is the first of them.

15 On the last page of that set of excerpts,
16 and this is in Appendix B at page 7, paragraph 13, the
17 Commission stated, "The Commission urges the Postal
18 Service to proceed forthwith to develop a rate design
19 for periodicals that better serves the needs of all
20 interested stakeholders and thereafter file a request
21 for a recommended decision with the Commission. It is
22 hoped that this order will further inform the Postal
23 Service and spark prompt action."

24 One purpose of my cross-examination of you
25 this morning is going to be to explore the extent to

1 which the Postal Service's periodicals rate proposal
2 is responsive to the Commission's order in the
3 complaint case, and the second purpose will be to try
4 to clarify your explanation of the conceptual basis
5 and the policy basis of the Postal Service's
6 periodicals rate design.

7 Section 1 of your testimony is entitled
8 Background, and that reviews, does it not, the Postal
9 Service's proposals starting in Docket No. R2001-1,
10 going through the two experimental copalletization
11 cases, the MC cases, up to the present?

12 A Yes, it does.

13 Q And then in Section 2, which is entitled
14 Current Proposal, you assess the proposal in this case
15 in the context of that background. Is that right?

16 A Yes.

17 Q Would you please refer to that section?
18 This is on page 3.

19 A Of my testimony?

20 Q Of your testimony, yes. In the first
21 sentence of that section you say, "The current
22 proposal is a logical continuation of this
23 philosophical approach to provide modest incentives
24 for improvements in preparation while avoiding large
25 rate impacts for nonparticipants."

1 I take it that sentence is your description
2 of the central concept or objective of the Postal
3 Service's periodicals rate design in this docket?

4 A Yes, it does reflect that.

5 Q And when you say "while avoiding large rate
6 impacts for nonparticipants," what do you mean by
7 nonparticipants?

8 A What is meant by nonparticipants is even
9 with I think our copalletization experiment changed
10 the playing field quite a bit in terms of providing
11 incentive for copalletization and moving people into
12 the direction of combining their mail together into
13 pallets.

14 We still think that there are people who do
15 not have -- there are a huge number of people who do
16 not have copalletization or comailing as an option,
17 and that is where the impact is a concern of ours.

18 If these people cannot palletize their mail,
19 they cannot change their behavior immediately. We
20 need to be mindful of that fact.

21 Q So you mean people who will not improve
22 their mail preparation?

23 A People who may not have an option at this
24 point in time.

25 It does not mean that we have given up on

1 them and we won't work with them in the future in
2 terms of changing their behavior, but at this point in
3 time we have not been able to approach them with the
4 right type of incentive to change their behavior.

5 Q Okay. Let's turn now to the third and the
6 last major section of your testimony, which is
7 entitled Impact on Mailers.

8 A Yes, sir.

9 Q That section performs a comparative analysis
10 of the impact of the three proposals in this case on
11 periodicals mailers. Is that right?

12 A Yes, sir.

13 Q And if you would refer to the passage that
14 Mr. Levy looked at on page 5 starting at line 8? You
15 say there:

16 "The key statistic in my mind is the
17 standard deviation. Note that the Postal Service
18 proposal has the lowest standard deviation overall,
19 i.e. for all mailers. This reflects the Postal
20 Service's effort to limit the impact of its rate
21 proposal on various mailers to as narrow a range as
22 practicable while still maintaining adequate
23 incentives for efficient mail preparation."

24 Is it correct that that is the heart of your
25 argument and that summarizes the central thesis of

1 your testimony?

2 A The heart of the argument from our
3 perspective and the Postal perspective is it's a
4 difficult process to change behavior while mitigating
5 the impacts on people who are not able to participate.
6 That is the heart of the argument, yes.

7 Q All right. Just for shorthand purposes, can
8 we agree that standard deviation for this discussion
9 means that it's the spread of the percentage increases
10 in the proposed rates around their own mean?

11 A Around their own mean. Yes, sir.

12 Q Okay. And when you say it's the key
13 statistic and that this statistic reflects the Postal
14 Service's effort to limit the impact to the narrowest
15 range practicable, I'm right, am I not, in inferring
16 that it is the spread or the variation that is the
17 focus of your attention?

18 A As I told Mr. Levy earlier, the focus of the
19 attention are two things. The most important is the
20 mean increase, the average increase, and then the
21 deviation around the increase. Our focus on the
22 average increase is very important and then the
23 deviation around that mean.

24 Q All right. Let's talk about that for a
25 moment. You were discussing with Mr. Levy your Table

1 3, and you said that it showed average increases.

2 Does it in fact show any average increases?

3 A I beg your pardon?

4 Q Does your Table 3 show any averages? I
5 think it just shows means, does it not?

6 A I take mean to be the average.

7 Q Is mean the same thing as average?

8 A As far as I know. Am I missing something on
9 this one? I mean, we basically take the mean of --

10 Q Well, suppose hypothetically you have 100
11 mailers in the total periodicals universe. Let's say
12 101. Wouldn't the mean percentage increase be an
13 increase for Mailer No. 50?

14 A No. That is median.

15 Q Okay.

16 A That is median.

17 Q So mean is synonymous with average?

18 A For the most part, yes. Mean is an estimate
19 of the true average. In some samples, mean is a sort
20 of an estimate of the true average of the population,
21 and I'm not getting into that right now because I've
22 forgotten most of my statistics.

23 Q Well, let me ask the question this way. All
24 three proposals in this case are based on the same
25 revenue requirements for periodicals, are they not?

1 A I think so, yes.

2 Q Doesn't it necessarily follow that the
3 average proposed increase is identical for the three
4 proposals?

5 A The average increase for the three proposals
6 for the whole population --

7 Q Yes.

8 A -- would be identical, yes. You're right.
9 What we're looking at was the impact on the sample
10 that we were asked to collect or update as a result of
11 POIR 19, and we are looking at the average increases
12 on that particular sample.

13 Q Now, suppose the periodicals revenue
14 requirement justified a 10 percent decrease in average
15 periodicals rates and suppose also that there were
16 three proposals quite like the ones in this docket,
17 but with just that change.

18 Wouldn't your scatter patterns and your
19 standard deviations look pretty much the same?

20 A First of all, I'm still trying to absorb the
21 10 percent reduction in periodicals revenue.

22 I think our focus would be quite different.
23 It's a different world altogether.

24 Q That was my next question. This question
25 was whether the extended deviations and your scatter

1 patterns would be quite different. They would not,
2 would they?

3 A They probably would -- the concerns that we
4 have in this particular proposal is because of the
5 rate increases that are above average, the cost
6 increases that are above average and the cost coverage
7 that is very low, so I think our concerns would be
8 quite different if you were proposing a rate reduction
9 in the periodicals rates.

10 Q Well, reverting to the passage we were
11 looking at you say, "The key statistic in my mind is
12 the standard deviation." Is that the case or not?

13 A In terms of evaluating the impact on various
14 types of publications, standard deviation provides a
15 good measure of making sure that most of the people
16 are not being affected significantly more than the
17 average.

18 Q Okay. Would you agree that an across-the-
19 board percentage increase, say 10 percent, for every
20 rate element in periodicals would get you about the
21 lowest standard deviation possible?

22 A But that would not serve the -- there's not
23 just one single goal. If that is the case, yes, it
24 would probably do that.

25 Q All right. And if it were say a 100 percent

1 across-the-board increase in every rate element that
2 would also get you the lowest standard deviation
3 possible?

4 A Possibly, yes.

5 Q That was a yes?

6 A Yes.

7 Q To summarize, when you say that the Postal
8 Service's effort has been to limit the impact of its
9 rate proposal on various mailers to the narrowest
10 range practicable, you're essentially saying that its
11 objective has been to produce a proposal under which
12 all mailers would have as nearly as possible the same
13 percentage increase?

14 A Our objective is to have a proposal that
15 would change behavior, that would cause the cost
16 increases to come under control, that would allow the
17 periodicals subclass to have a cost coverage.

18 When we start out with that goal we want to
19 be sure that the signals that we give for efficient
20 preparation do not lead to some people going out of
21 business.

22 As it was suggested earlier yesterday to me
23 that if this portion of the mail leaves would the
24 Postal Service be better off or worse off. Our goal
25 is never to design rates to make the volume disappear.

1 Q I understand that, and the statement that
2 we've been talking about indeed ends with the words
3 "while still maintaining adequate incentives for
4 efficient mail preparation." That's the second half
5 of it.

6 I was focusing on the first half, which is
7 limiting the impact of the rate proposal on various
8 mailers to the narrowest rate practicable, and I'm
9 going to get to the other part, but I'd like to stick
10 with that for now.

11 When you say that the standard deviation is
12 the key statistic, is that translatable into a
13 statement that the Postal Service regards that
14 particular aspect of impact or that kind of impact as
15 the most important to take into account for
16 periodicals rates?

17 A Standard deviation is a key statistic in
18 terms of looking at the impact on how huge the impact
19 is dispersed on various kinds of mailers, but the
20 average increase, the mean increase, of four different
21 sizes was the key figure that was in mind and then how
22 that mean was spread around different publications, so
23 standard deviation plus the fact the E1 is the average
24 increase, which is the mean increase.

25 Q Okay. And you would agree that there are

1 quite a few different kinds of impacts that could be
2 considered?

3 A Yes.

4 Q You mentioned the average rate increase.

5 A Right.

6 Q If it were a 150 percent cost contribution
7 that obviously would have a more severe impact than
8 the current rate proposals.

9 Is another kind of impact that the Postal
10 Service might have focused on the long-term impact on
11 the health of the periodicals class?

12 A That has been a concern since I've been with
13 the Postal Service. That has been a concern, the
14 long-term impact on periodicals class.

15 I think that is why the proposal in R2001-1
16 proposed the partial zoning of the editorial pound
17 rate in terms of providing discounts for editorial
18 pounds that were drop shipped.

19 That was also the focus when we proposed the
20 copalletization experiment, so the long-term health of
21 this particular subclass is a major concern in all the
22 proposals that we have filed, including this one.

23 Q And I take it that in evaluating the long-
24 term health of the subclass you reject the argument of
25 some -- for example, Time Warner -- that a different

1 kind of rate proposal would cause greater improvements
2 in mail preparation, thus greater efficiency, thus
3 lowering the cost of the subclass and thus improving
4 its overall health and prospects for the future?

5 A I think the key word to keep in mind is our
6 approach brings about gradual changes.

7 We are basically making incremental changes
8 and sort of a big change, and I think the Time Warner
9 proposal from the complaint case to this particular
10 docket has improved in that regard, but I think our
11 approach has been, and I think we'll continue to do
12 this, a gradual change to recognize where the
13 deficiencies in preparation are and provide incentives
14 for changes to that behavior.

15 Q You're not suggesting, are you, that gradual
16 change is somehow inherently the most promising kind
17 of change if you're trying to improve the health of
18 the --

19 A Gradual change has an advantage where it
20 improves the behavior and does not push people out of
21 business.

22 Q Well, I asked if it was inherently the most
23 promising.

24 A In terms of bringing about the change?

25 Q Yes.

1 A In fact, the success of the copalletization
2 experiment where the discounts were quite conservative
3 because we did not want to push up on the rates shows
4 me that I think this approach is working. There is
5 more palletized mail. There is more drop shipped
6 mail. I think we'll see the impact.

7 I'm hoping that we'll see the impact of
8 these on periodicals costs also, so I think the
9 gradual change has been proven to be very successful
10 so we'll want to continue with that approach.

11 Q Hasn't it been the argument of Time Warner
12 for years that the Postal Service systematically or
13 routinely I should say underestimates the success of
14 such incentives?

15 We're not surprised that the incentive is
16 working. That's why we want more of them.

17 A We just want to do it in a more incremental
18 fashion than you are proposing.

19 Q Another kind of impact that you might have
20 considered is the impact on the overall health of the
21 Postal Service and even the overall prosperity of
22 society. Is that a fair statement just in ranking?

23 A That would be true.

24 Q And you talked before about the greatest
25 good for the greatest number, an argument which has

1 been made and can be made that the lowest combined
2 cost and efficient component pricing produce the
3 greatest benefit for the Postal Service and for
4 society.

5 That is, when you look at the interest of
6 everyone involved those are the solutions that produce
7 the optimal results.

8 A Consider the point though that efficiency is
9 not the full consideration of these filings. We have
10 to look at the impact on the mailers. There are a
11 number of other things that go into the designing of
12 rates, efficiency being one of them.

13 Q Okay. When did the Postal Service determine
14 that a main objective of its periodicals rate proposal
15 would be to limit impact to the narrowest practicable
16 range?

17 A I think that has been a consideration in
18 most of the filings.

19 Q Well, you say here it's a chief --

20 A We look at the impact. One of the key
21 things that we do as we prepare the rate proposals for
22 periodicals is to look at the impact on various types
23 of customers.

24 Q Well, surely that's always been an important
25 factor, but to look at the impact on various customers

1 is not synonymous with an objective of keeping the
2 range as narrow as possible, is it?

3 A It's a proposal that was designed by the
4 analysts which leads to significantly higher increases
5 for certain types of mailers. There have been changes
6 before we filed it to the proposal to limit that
7 impact and bring it back in line closer to the
8 average.

9 Even though standard deviation may not have
10 been a key statistic that we looked at in all the
11 cases, I think the overall impact on a variety of
12 mailers has always been our concern as we design
13 proposals for periodicals.

14 Q Respectfully, I think that still doesn't
15 address my question.

16 You say in that statement we have been
17 looking at that the Postal Service proposal, the fact
18 that you have the lowest standard deviation, "reflects
19 the Postal Service's effort to limit the impact of its
20 rate proposal on various mailers to as narrow a range
21 as practicable."

22 My question was when was that objective
23 first formulated?

24 A I remember R97-1 when I first filed a
25 proposal for periodicals. A concern was that we

1 defined rate shock in that particular case as being 10
2 percent overage the average increase, so again it was
3 keeping it within that narrow range in R97-1.

4 That has always been the goal to keep the
5 impact closer to the average as much as possible while
6 providing that incentive for changing behavior.

7 Q You discussed with Mr. Levy the fact that
8 the POIR 19 data from Ms. Tang is the basis for your
9 standard deviations. Is that data in any way a
10 scientifically drawn sample that would give you any
11 statistical measure of significance?

12 A My recollection is the first sample was
13 drawn -- my recollection is that this was done based
14 on sound sampling techniques. I did not do it, but I
15 think the person who did it.

16 Whether it's a statistically valid sample?
17 I cannot answer that at this point.

18 Q Okay. All right. Mr. Levy asked a number
19 of questions, the point of which was to establish that
20 none of the Commission's opinions talked about
21 standard deviation.

22 Let me change the subject just slightly.
23 The Postal Service has made that an object of its
24 attention in the past. Did anyone calculate a
25 standard deviation for the Postal Service's rates

1 before the POIR 19 data was filed?

2 A No, we did not.

3 Q Did you calculate it before MPA's and Time
4 Warner's responses to POIR 19 showing the variance
5 rates were filed?

6 A Actually it was done afterwards.

7 Q Okay.

8 A But I think it's a good way to look at
9 things in terms of it provides a clear basis of what
10 the average is and what the dispersion around the
11 average is.

12 Q You would agree, would you not, if we were
13 talking about different kinds of impact that the
14 Postal Reorganization Act has quite a few factors in
15 it or provisions in it that bear on impact, the most
16 obvious perhaps being 3622(b)(1), the fairness and
17 equity provision, and (b)(4), which talks about
18 effective rate increases upon the general public and
19 business mail users?

20 A I think our proposal reflects --

21 Q My question was simply whether the Postal
22 Reorganization Act has a number of provisions that
23 relate to impact.

24 A Of course.

25 Q Okay. (b)(5) having to do with competition.

1 (b) (6) having to do with rate complexity. Would those
2 be two others? (b) (7), I'm sorry, having to do with
3 the complexity of rates.

4 A I don't have them memorized.

5 Q I ask that because I didn't find either in
6 Mr. O'Hara's testimony or in Ms. Tang's or in yours
7 any systematic consideration of the statutory factors.

8 Do you know whether anyone at the Postal
9 Service ever performed such an exercise in this case?

10 A Yes. I mean, usually the rate level witness
11 has all the pricing criteria listed, but in previous
12 testimonies of mine for periodicals I had the pricing
13 criteria in many of the cases.

14 Q I'm asking about this case, not previous
15 ones.

16 A In this particular case it was considered,
17 and I think usually the rate level witness addresses
18 the overall issue. The rate witness takes into
19 consideration all of the pricing criteria.

20 Q I agree that that's usual. My question is
21 in this case do you know whether any witness has
22 provided a systematic analysis or a discussion of the
23 statutory factors with respect to periodicals rates?

24 A I don't know.

25 Q All right. Now, you would agree, would you

1 not, that there are longstanding and intense
2 differences of opinion about how some of the statutory
3 factors dealing with impact ought to be interpreted?
4 I'll give you an example if you like.

5 A Please do.

6 Q Well, some mailers, for example, argue that
7 it's unfair to charge them rates that do not recognize
8 the low cost of their mail. Other mailers argue that
9 it would be unfair to charge them the rates that do
10 recognize the high cost of their mail.

11 Those two arguments represent a
12 diametrically opposite set of views as to how
13 Criterion 1 should be interpreted.

14 A I'm aware of them. I think our goal is just
15 to sort of balance where we move in recognizing the
16 cost causing behavior of different type mailers, and I
17 think our container rate does that in terms of moving
18 in that direction and at the same time balancing it
19 with the impact on mailers by limiting or sort of
20 narrowing the dispersion of the increase on a wide
21 variety of customers.

22 Q But my question was about the differences of
23 opinion that have existed for a long time and have
24 been widely discussed about, for example, the correct
25 interpretation or application of Criterion 1.

1 I'm simply asking you do you acknowledge
2 that they do exist, do you not?

3 A Of course.

4 Q And it doesn't seem to me that your
5 testimony or any other Postal Service testimony really
6 addresses those differences other than to announce a
7 conclusion. I'd like to have your response.

8 When you say that the Postal Service has an
9 objective of limiting rate increases to as narrow a
10 range as practicable --

11 A But that was not the only goal.

12 Q Let me finish, please. That announces an
13 objective and a position. It seems to me that
14 announces a conclusion in answer to some of those
15 questions. It doesn't say how you got there.

16 A I think that is sort of a misrepresentation
17 of our proposal because that was not the only goal.

18 The goal was to make sure that the costs are
19 covered, the goal was to make sure that the right
20 incentives are provided to change the behavior, and
21 the goal was to make sure that as we provide the right
22 incentive the impact on different types of mailers
23 should be considered.

24 There were a variety of goals, and I think
25 from my perspective we've done a good job of balancing

1 all of these, the requirements of the pricing
2 criteria, to have a proposal that is fair and
3 equitable and takes into account the impact on
4 mailers.

5 You would disagree with it, but that's --

6 Q Well, yes. Let me go on to the question of
7 incentives because I disagree, and indeed I would
8 argue that the same is true of what you say about
9 incentives.

10 You announce that your incentives are
11 adequate, and what that means is, as far as I can
12 tell, that you have decided to call it adequate. I
13 mean, you don't give another definition.

14 Let me let you respond to that before I go
15 on.

16 A Okay. Basically again, as in my discussion
17 with Mr. Levy, the goal was to gradually move towards
18 changing the behavior of the mailers, which brings the
19 cost in line, which brings the cost coverage at an
20 adequate level and without impacting a number of
21 mailers who will not be able to participate
22 immediately in all of the programs that allow them to
23 change their behavior and prepare the mail more
24 efficiently.

25 So it will not be adequate from somebody's

1 perspective, but from our perspective as long as we're
2 moving in the right direction and limiting the impact
3 on various types of mailers that is our goal.

4 MR. KEEGAN: That's fair enough.

5 Mr. Chairman, may I approach the witness to
6 hand him a cross-examination exhibit?

7 CHAIRMAN OMAS: Yes.

8 (The document referred to was
9 marked for identification as
10 Exhibit No. TW-XE-1.)

11 BY MR. KEEGAN:

12 Q Mr. Taufique, I've just handed you a
13 document that I have marked for identification as
14 TW-XE-1, and I would ask you to accept subject to
15 check that what I've handed you is a chart or a table
16 rather containing information abstracted from the
17 sheet showing Percent Rate Changes for Commercial
18 Regular Standard in Witness Kiefer's workpapers.
19 Would you accept that subject to check?

20 A Yes.

21 MR. KEEGAN: Mr. Chairman, I move that this
22 be transcribed at this point in the record. I don't
23 move that it be put into evidence.

24 CHAIRMAN OMAS: Without objection. So
25 ordered.

1 (The document referred to,
2 previously identified as
3 Exhibit No. TW-XE-1, was
4 received in evidence.)

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TW-XE-1

Selected 'Percent Rate Changes' for Commercial Regular Standard
(using TYBR volume weights)

Letters, mixed AADC, non-auto, non-mach, DBMC entered	+39.1%.
Flats, mixed ADC, automation, origin entered, under 3.3 ounces	+23.7%
Flats, non-auto, 3-digit presort, origin entered, under 3.3 ounces	+24.3%
Parcels, machinable, mixed BMC, 5 ounces	+62.7%
Parcels, non-mach, mixed ADC, DBMC entered, under 3.3 ounces	+84.0%
NFMs (aka hybrid flats, hybrid parcels), mixed ADC/BMC, DBMC entered, under 3.3 ounces	+215.6%
Customized Market Mail (CMM)	-19.2%
Average for subclass	10.8%*

Source: USPS-LR-L-36, Kiefer workpaper WP-STDREG.xls, Worksheet 27, cells E19, D26, D34, I39, E44, E51, and D60, in order down column.

* Source: USPS-T-36, final, 8/22/06, p. 35, line 7

1 BY MR. KEEGAN:

2 Q Now, in this table we show from Mr. Kiefer's
3 spreadsheet some of the percentage changes for various
4 subcategories in commercial regular standard. The
5 last line is the average increase for the subclass,
6 which is 10.8 percent.

7 You will confirm, will you not, that these
8 range from a low of minus 19.2 percent for customized
9 market mail to a high of plus 215.6 percent for
10 so-called hybrid parcels?

11 A Yes.

12 Q All right. And will you accept or do you
13 know that there are similar ranges of increases in the
14 rate proposals for nonprofit regular standard?

15 A I do not know that.

16 Q Okay. I infer from these proposals that
17 after a period where costs were for a long time not
18 recognized that the Postal Service is willing to
19 propose some fairly radical percentage increases in
20 order to improve efficiency and incentivize better
21 mailing practices.

22 A Let me clarify one thing. This is for
23 standard mail, right?

24 Q This is for standard mail, yes.

25 A Okay.

1 Q Large, both positive and negative changes.

2 A Right. This is for standard mail, and we're
3 talking about periodicals.

4 Q Well, my question is why is there this kind
5 of willingness for standard mail, but not for
6 periodicals?

7 A Periodicals, again from my experience, have
8 a special place in terms of the rate impact because of
9 the extra value, and both the Postal Service and the
10 Postal Rate Commission has stated that in many cases
11 the cost coverage for periodicals has been
12 significantly lower than other classes of mail.

13 In fact, in reality in some cases when you
14 look at the CRA numbers the cost coverage for
15 periodicals has been below 100 percent in some cases
16 in some years, in the last four or five years.

17 I think the rate design for periodicals
18 takes into account the special draw that periodicals
19 play in binding the nation together and the extra
20 value they provide, so I think we've been much more
21 careful in terms of -- and not just us. The Postal
22 Rate Commission also has guided us in that regard.

23 The rate design for periodicals should not
24 have the variety of impacts, of significant impacts,
25 that we're looking at in standard mail.

1 Q With respect to cost coverage I'm confused a
2 little bit. I don't understand why a standard mailer
3 who is facing an increase of 215 percent ought to be
4 less upset because his subclass already has a high
5 cost coverage. Why should that have --

6 A I do not know all the circumstances of the
7 standard mail filing.

8 Q I'm just questioning the logic.

9 A All that I'm talking about is periodicals at
10 this point in time, and what I'm saying is that there
11 has been a concern within the Postal Service, as well
12 as the Postal Rate Commission, to design the rates
13 where the impacts would not cause people to go out of
14 business or the rate impact is not bearable by some of
15 the smaller publications.

16 Q I think, Mr. Taufique, my question was about
17 cost coverage. Does the cost coverage have any
18 logical relationship to whether or not variation in
19 percentage rate increases is desirable or undesirable?

20 A This kind of variation from the perspective
21 of the Postal Service for periodicals would be
22 undesirable.

23 Q With respect? That is not my question. My
24 question is what does that have to do with cost
25 coverage?

1 A The cost coverage for periodicals is
2 reflective of the value that the Commission, as well
3 as the Postal Service, has put on this particular
4 subclass of mail and so I think this goes hand-in-
5 hand.

6 The coverage, as well as the impact on
7 mailers, both should be considered in a different
8 light altogether compared to other classes of mail.

9 Q All right. Let's finally then get to the
10 subject of incentives. The second thing you say in
11 that passage we've been looking at, as I said, is that
12 the low standard deviation reflects the Postal
13 Service's effort to limit impact while still
14 maintaining adequate incentives for efficient mail
15 preparation.

16 Now, the standard deviation in fact doesn't
17 reveal anything about the incentives for efficient
18 mail preparation, does it?

19 A No.

20 Q All right.

21 A That's not the impact on mailers.

22 Q So when you say the low standard deviation
23 reflects the Postal Service's objective of the
24 narrowest practicable range of increases while still
25 maintaining adequate incentives, the "while still" is

1 an extraneous constraint on --

2 A The proposal is a combination of a number of
3 things, and these are the two things that we're
4 discussing. One is to limit the impact on mailers
5 while providing incentives for the mailers to do the
6 right thing.

7 Q Okay. When you speak of maintaining
8 adequate incentives for efficient mail preparation,
9 does the fact that you use the word "maintaining"
10 adequate incentives instead of "creating" or
11 "introducing" --

12 A One of the goals of this filing --

13 Q May I finish the question, please?

14 A Yes. My apologies.

15 Q Does that fact suggest that you believe the
16 existing incentives have been adequate?

17 A A couple of goals that were part of this
18 filing. Number one, one goal was to make sure that
19 since we were --

20 Q Mr. Taufique, could you please answer? I
21 don't mind your commenting at whatever length you'd
22 like, but could you answer the question first?

23 Does that statement by you imply that you
24 believe the existing incentives have been adequate?

25 A Existing incentives in terms of the

1 experimental rates the Postal Service has offered has
2 brought about some positive changes, and we would like
3 to maintain those incentives to continue with those
4 positive changes in the future.

5 I think we're going one step further in this
6 particular case. There are existing incentives that
7 are being taken away as a result of the ending of the
8 copalletization experiment, so we want to make sure
9 those are the keys maintained, and then we go one step
10 further.

11 Q All right. Now, you don't mean by
12 maintaining adequate incentives that you're
13 maintaining incentives that are aligned with the
14 Postal Service's costs for different types of mail
15 preparation, do you?

16 A What I mean by that is as a result of the
17 experiment that is already in place at this point in
18 time there has been a significant movement of mail
19 from sacks onto pallets. There has been a significant
20 change in the drop ship profile.

21 We would like for this to continue. It is
22 not just the copalletization people, but folks who do
23 comail also receive those incentives so there are
24 incentives for people to comail also, and we would
25 like to maintain those incentives. That was the

1 minimum. That is the least that we were doing in this
2 particular case.

3 Q So then it is correct to say you do not mean
4 by adequate incentives incentives that reflect the
5 cost of mail preparation to the Postal Service?

6 A The cost of preparation is part of handling
7 sacks, handling mail at the origin. That is
8 definitely part of changing the behavior in terms of
9 preparation.

10 Q Is it part of your definition of what
11 constitutes adequate incentives that those incentives
12 reflect the costs to the Postal Service for different
13 types of mail preparation?

14 A I think incentives in this particular docket
15 basically are a reflection of the movement in the
16 direction where costs that are caused by certain
17 behavior are reflected in the rates again gradually,
18 incrementally, one step at a time.

19 Q All right. If you would turn to page 4 of
20 your testimony? At line 8 you also talk about
21 adequate incentives at that point and you say:

22 "The Postal Service believes the container
23 rate introduced in the rate proposal sends a
24 consistent and clear signal to the periodicals
25 community and continues to provide adequate incentives

1 to encourage more mail preparation and worksharing."

2 A What line number are you on?

3 Q I'm sorry. Line 8. Lines 8 through 10 on
4 page 4 of your testimony.

5 A And it continues to say that --

6 Q Well -- I'm sorry. Go ahead.

7 A -- in Witness Tang's response to MPA/USPS-
8 35-17 she provided the estimates for publications, so
9 I think this basically reflects our concern that the
10 removal of the copal experiment should not negatively
11 affect the folks who are copalletizing their mail or
12 in fact in comailing their mail as a result of those
13 incentives.

14 Q All right. And you're referring there to
15 Witness Tang's proposal for an 85 cent flat container
16 charge for all sacks and all pallets?

17 A I think that there are two aspects.

18 Q Is that what you're referring to?

19 A The container charge is one aspect of it.
20 The other aspect is the introduction or reintroduction
21 of the drop shipment rate for editorial pounds, which
22 also provides additional incentive for drop shipment
23 for the publications that have high editorial content.

24 CHAIRMAN OMAS: Mr. Keegan?

25 MR. KEEGAN: Yes, Mr. Mr. Chairman?

1 CHAIRMAN OMAS: Could I inquire as to how
2 much more time?

3 MR. KEEGAN: I think perhaps 15 minutes
4 maximum.

5 CHAIRMAN OMAS: Okay. We'll proceed then.

6 BY MR. KEEGAN:

7 Q Does the proposed container charge in fact
8 recognize drop ship savings?

9 A The proposed container charge in combination
10 with the editorial pound incentive provides an
11 incentive for both palletization and drop shipment.

12 Q Does the proposed container charge recognize
13 drop ship savings?

14 A By itself it does not. By itself it does
15 not.

16 Q All right. Now, as you've said, the Postal
17 Service is proposing to eliminate the drop ship pallet
18 discount. Is that correct?

19 A Yes, sir.

20 Q And Time Warner is also proposing to
21 eliminate the drop shop pallet discount. Is that
22 right?

23 A Yes, sir.

24 Q Do you know? Is Time Warner proposing to
25 replace the existing drop ship pallet discount with

1 cost-based pallet charges that would recognize drop
2 ship savings?

3 A The Time Warner proposal from what I've
4 seen, my understanding is it reflects all types of
5 cost causation behavior in terms of containers, the
6 level of containers, the end point of containers,
7 bundles, so the Time Warner proposal is much more
8 elaborate in that regard.

9 Q But it would replace the existing drop ship
10 pallet discount with a pallet charge that recognizes
11 drop ship savings. Is that correct, or don't you
12 know?

13 A I've not done the actual calculation, but,
14 yes, that would be reasonable to assume.

15 Q And the Postal Service proposes to replace
16 that discount with the 85 cent flat container charge
17 for all pallets and all sacks? Is that right?

18 A The Postal Service's proposal provides
19 double, two incentives. One is the container charge.
20 The other one is the editorial pound drop shipment to
21 provide a more direct signal in terms of changing
22 behavior.

23 Q Is the editorial pound drop ship discount a
24 replacement for the pallet discount that's being
25 withdrawn?

1 A There are two components of the pallet
2 discount. One was just the preparation of pallets.
3 The other one was the drop shipment of pallets.

4 Q I'm speaking of the second exclusively.

5 A The combination is expected to replace both
6 of them.

7 Q Okay.

8 A And provide a more direct signal to the
9 mailers to change their behavior.

10 Q Do you have Ms. Tang's testimony? I'm not
11 sure you need to refer to it because I'm just going to
12 quote about a half sentence.

13 A In this docket?

14 Q In this docket, yes.

15 A Yes, I think I do.

16 Q If you would refer to page 4 of her
17 testimony at line 19? This is the point at which
18 she's introducing the 85 cent flat container charge,
19 and she says:

20 "In its order addressing the complaint of
21 Time Warner, et al., the Commission encourages the
22 Postal Service to 'progress toward a more cost-based
23 periodicals rate structure.' To achieve this
24 progress, the Postal Service now proposes a flat rate
25 of 85 cents to be applied to each sack or pallet

1 containing periodicals mail."

2 I left out a part, but is that a fair
3 reading of it?

4 A That's fine.

5 Q The paragraph she quotes from the
6 Commission's order, which appears on -- well, I don't
7 have the reference, but that paragraph ends with the
8 sentence that, "The complainants have made a major
9 contribution by identifying and quantifying cost
10 drivers associated with bundles, sacks and pallets."

11 A Uh-huh.

12 Q Does Ms. Tang's proposal for a container
13 charge in any way constitute progress that's based on
14 a recognition of the cost drivers associated with
15 bundles, sacks and pallets?

16 A The Commission in its decision on C2004-1
17 talks about three different alternatives. The last
18 one is the opt-in approach, the first one is the sort
19 of gradual implementation of what Time Warner
20 proposes, and the second one is piecemeal.

21 I think what we are trying to do is number
22 two in terms of again it's a gradual change, but that
23 is our goal is to sort of follow the Commission's
24 recommendation in a gradual fashion in Alternative 2,
25 which is in terms of piecemeal, I believe.

1 Q To your knowledge, has the Postal Service
2 performed any evaluation of the Commission's
3 conclusion that the complainants in the complaint case
4 made a "major contribution by identifying and
5 quantifying cost drivers associated with bundles,
6 sacks and pallets?"

7 A I think it's a recognition of the complaint
8 case and the recommendation made by the Commission in
9 that particular case that if you're heading in that
10 direction and sort of having a pallet discount you're
11 moving towards a container cost, which you will not
12 think it is enough, but from our perspective it is the
13 first step in the right direction.

14 Q Well, I don't take a flat container charge
15 for all sacks and pallets as recognizing the cost of
16 bundles, sacks and pallets as distinctive.

17 A You may not agree with us, but that is our
18 first step in that direction.

19 Q Would you accept subject to check that Mr.
20 Mitchell's workpapers, for example, show that some
21 sacks cost \$5.60 to handle and others cost only \$1.60?

22 A That's a possibility.

23 Q And that they show that some pallets, for
24 example, a five digit pallet entered at the origin
25 office, costs \$66.70 to handle, whereas the same

1 pallet entered at the DDU costs \$2.90 to handle?

2 A They are definite differences in terms of
3 the profile and the container level, but even when we
4 first proposed the pallet discount in R2001-1 we only
5 took into account the cost of handling the container
6 at the destination facility, so again our approach has
7 been I think to move in the right direction one step
8 at a time.

9 I think by having a container charge as sort
10 of a valid discount, I think that is a movement in the
11 right direction, and it follows the spirit of what the
12 C2004-1 decision asked us to do.

13 Q So the flat container charge is a movement
14 towards or is progress towards more cost-based rates?

15 A As far as we are concerned, this is a more
16 direct incentive for the mailers to change their
17 behavior, and it's moving in that direction.

18 Q Finally, do you happen to be aware of the
19 fact that all the participants in this case who had
20 filed testimony concerning periodicals rates have
21 declared their agreement with the Commission's finding
22 that progress towards a more cost-based rate structure
23 is both possible and necessary?

24 A And we are not in disagreement with that
25 either.

1 Q No. Witness Tang in the passage I just read
2 has endorsed that.

3 Doesn't that mean the real question is how
4 far, how fast and in what manner progress should take
5 place?

6 A That is where the disagreement comes in.

7 Q Even if the Commission decided to limit the
8 impact of its periodicals rate increases by applying a
9 certain standard deviation or other device in terms of
10 looking at the range of increases, why should it do so
11 by adopting something like the 85 cent container
12 charge instead of incentives that are aligned or
13 better aligned with Postal Service costs, the cost of
14 mail preparation?

15 A I think the Commission should accept the
16 Postal Service's proposal because it is the most
17 balanced proposal in terms of providing the right
18 incentive while mitigating the impact on the mailers.

19 MR. KEEGAN: Thank you very much, Mr.
20 Taufique.

21 That's all I have, Mr. Chairman.

22 CHAIRMAN OMAS: Thank you Mr. Keegan.

23 Is there anyone else who wishes to cross-
24 examine Witness Taufique?

25 (No response.)

1 CHAIRMAN OMAS: Are there any questions from
2 the bench?

3 (No response.)

4 CHAIRMAN OMAS: Mr. Rubin, would you like
5 some time with your witness?

6 MR. RUBIN: Yes. In fact, I think 15
7 minutes would be helpful to deal with this.

8 CHAIRMAN OMAS: Okay. We'll see you at
9 11:45.

10 (Whereupon, a short recess was taken.)

11 CHAIRMAN OMAS: Mr. Rubin?

12 MR. RUBIN: Thank you.

13 REDIRECT EXAMINATION

14 BY MR. RUBIN:

15 Q Mr. Taufique, in cross-examination by MPA
16 counsel there was discussion of four publications for
17 which the Postal Service proposal would cause a
18 percentage increase greater than the maximum increase
19 under the MPA's proposal. Are you familiar with these
20 four publications?

21 A Yes. I know that these four publications
22 are primarily Within County publications, and the
23 pieces, if you're looking at the piece that is being
24 considered in this data set, is the Outside County
25 portion of those publications.

1 At least on three of them the volume numbers
2 are pretty small. One is 17 pieces, the other one is
3 20 pieces, and the third one is 102 pieces, so even
4 though the percent increase, especially on the 43
5 percent increase, there are only 17 pieces so the
6 actual dollar amount increase is around \$3 or \$4, from
7 \$7 to approximately \$11.

8 Q Time Warner counsel asked you about how the
9 Postal Service proposal would maintain adequate
10 incentive for efficient mail preparation in
11 periodicals, and in response you referred to the
12 container rate and the editorial pound drop ship
13 discounts.

14 Are there any other Postal Service proposals
15 in this case that maintain adequate incentives for
16 more efficient mail preparation?

17 A What I failed to mention was the increase in
18 the drop ship discounts for both SCF and DSCF and
19 DADC.

20 In the case for DSCF, the discount goes up
21 from eight-tenths of a cent to 1.1 cent per piece, and
22 for the DADC the discount goes up from .002 or
23 two-tenths of a cent to three-tenths of a cent, which
24 is a huge percent increase, but that is the amount of
25 increase in drop ship discounts, which is also a

1 direct incentive for people to drop ship their mail.

2 MR. RUBIN: Thank you. That's all I have.

3 CHAIRMAN OMAS: Thank you, Mr. Rubin.

4 Is there anyone who wishes to redirect the
5 witness? Mr. Keegan? Mr. Levy?

6 MR. KEEGAN: Nothing further, Mr. Chairman.

7 CHAIRMAN OMAS: All right. Thank you.

8 Mr. Taufique, that completes your testimony
9 here today. We appreciate your appearance and your
10 contribution to our record, and we again thank you.
11 You are excused.

12 THE WITNESS: Thank you very much.

13 (Witness excused.)

14 CHAIRMAN OMAS: This concludes hearings to
15 receive testimony in rebuttal to participants' direct
16 testimony.

17 We are now adjourned.

18 (Whereupon, at 11:49 a.m. the hearing in the
19 above-entitled matter was concluded.)

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REPORTER'S CERTIFICATE

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I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Commission.

Date: 12/7/06



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